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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
PROCESSING FRAMEWORK AGREEMENT

THE PROCESSING FRAMEWORK AGREEMENT

The Board is pleased to announce that on 2 August 2023 (after trading hours), the Company entered into the Processing Framework Agreement with Feihe Dairy HLJ, a wholly-owned subsidiary of China Feihe (for itself and on behalf of its subsidiaries), pursuant to which, the Company agreed to engage Feihe Dairy HLJ and its subsidiaries to provide Processing Service for processing raw milk into full cream milk powder and for a term commencing from 2 August 2023 and ending on 31 December 2023 subject to the terms and conditions contained therein.

IMPLICATIONS UNDER THE LISTING RULES

As of the date of this announcement, Feihe Dairy HLJ is a wholly-owned subsidiary of China Feihe and China Feihe holds approximately 71.26% of the total issued share capital of the Company. Therefore, Feihe Dairy HLJ is an associate of China Feihe and hence a connected person of the Company. Thus, the transactions contemplated under the Processing Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in relation to the Annual Cap exceeds 0.1% but is less than 5%, the transactions contemplated under the Processing Framework Agreement are subject to reporting and announcement requirements but is exempt from circular (including independent financial advice) and the Shareholders' approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

The Board is pleased to announce that on 2 August 2023 (after trading hours), the Company entered into the Processing Framework Agreement with Feihe Dairy HLJ, a wholly-owned subsidiary of China Feihe (for itself and on behalf of its subsidiaries), pursuant to which, the Company agreed to engage Feihe Dairy HLJ and its subsidiaries to provide Processing Service for processing raw milk into full cream milk powder and for a term commencing from 2 August 2023 and ending on 31 December 2023 subject to the terms and conditions contained therein.

PRINCIPAL TERMS OF THE PROCESSING FRAMEWORK AGREEMENT

The principal terms of the Processing Framework Agreement are summarised as follows:

Date:	2 August 2023 (after trading hours)
Parties:	(a) the Company; and (b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries).
Contract period:	The term of the Processing Framework Agreement shall commence from 2 August 2023 and shall end on 31 December 2023.
Condition precedent:	The Processing Framework Agreement is effective upon the fulfilment of the following conditions: (i) the independent Shareholders of the Company having approved the Processing Framework Agreement and the transactions contemplated thereunder by passing an ordinary resolution at a special general meeting (if necessary); (ii) all necessary consents and approvals required to be obtained by the parties to the Processing Framework Agreement in respect of the entering into of the said agreement and the transactions contemplated thereunder having been obtained; and (iii) as the transactions contemplated under the Processing Framework Agreement constitute continuing connected transactions for the Company, the performance of the obligations under the said agreement having complied with the requirements of the Listing Rules.
Subject matter:	The Company shall provide raw milk to Feihe Dairy HLJ (in its respective capacity as stated above) and Feihe Dairy HLJ shall process the raw milk into full cream milk powder according to the prescribed quality standards and specifications as set out in the Processing Framework Agreement.

Pricing and payment terms: According to the terms of the Processing Framework Agreement, the processing service fee to be charged by Feihe Dairy HLJ for each tonne of full cream milk powder is RMB2,000 (excluding tax). The processing service fee was determined with reference to the current processing costs of milk powder by Feihe Dairy HLJ (such as costs associated with packaging, storage, sanitisation, utilisation and maintenance of the processing machineries and facilities) and the prevailing market price for processing raw milk into milk powder. The processing service fee shall be settled by the Company within 14 days upon receiving the invoice from Feihe Dairy HLJ which shall be sent to the Company on or before the 15th day of the next month.

The price and terms of the transactions contemplated under the Processing Framework Agreement were determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and on terms no less favourable to the Group than those available from independent third parties.

Annual Cap and basis of determination

The Annual Cap in connection with the Processing Service for the period from 2 August 2023 to 31 December 2023 is RMB29 million, which is determined with reference to:

- (i) the historical transaction amount of RMB9.0 million for the period from 22 June 2015 to 31 December 2015 whereby the Group engaged Feihe Dairy HLJ for similar processing service (for details, please refer to the announcement of the Company dated 22 June 2015);
- (ii) the estimated raw milk production capacity and expected milk yield of the Group during the term of the Processing Framework Agreement;
- (iii) the estimated sales volume of raw milk produced by the Group during the term of the Processing Framework Agreement;
- (iv) the milk power processing capacity of Feihe Dairy HLJ; and
- (v) per unit processing service fee as stated under the Processing Framework Agreement.

REASONS AND BENEFITS FOR THE CONTINUING CONNECTED TRANSACTIONS

Considering that the current average selling price of the Group's raw milk has decreased as compared with last year due to the temporary oversupply on the raw milk market, in order to increase the Group's income sources by diversifying its products and to fully utilise and better allocate the Group's production capacities, the transactions contemplated under the Processing Framework Agreement will enable the Group to convert its raw milk into milk powder to extend the shelf-life of the Group's raw milk for immediate sale and/or storage for sales in the future, given the perishable nature of raw milk. The processing facilities of Feihe Dairy HLJ and its subsidiaries are located in close proximity of the Group's dairy farm, which allows the Company to deliver the Group's raw milk in a timely and cost-efficient manner.

The Directors (including the independent non-executive Directors) consider that (i) the entering into of the Processing Framework Agreement is in the ordinary and usual course of business of the Group; and (ii) the terms of the Processing Framework Agreement, together with the Processing Service and the Annual Cap, are on normal commercial terms, fair and reasonable, and in the interests of the Group and the Shareholders as a whole.

IMPLICATIONS OF THE LISTING RULES

As of the date of this announcement, Feihe Dairy HLJ is a wholly-owned subsidiary of China Feihe and China Feihe holds approximately 71.26% of the total issued share capital of the Company. Therefore, Feihe Dairy HLJ is an associate of China Feihe and hence a connected person of the Company. Thus, the transactions contemplated under the Processing Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in relation to the Annual Cap exceeds 0.1% but is less than 5%, the transactions contemplated under the Processing Framework Agreement are subject to reporting and announcement requirements but is exempt from circular (including independent financial advice) and the Shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors has any material interest in the Processing Framework Agreement and the transactions contemplated thereunder or were otherwise required to abstain from voting in respect of the relevant board resolutions.

GENERAL INFORMATION

The Company

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

China Feihe

China Feihe Limited, 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.

Feihe Dairy HLJ

Feihe Dairy HLJ and its subsidiaries are mainly based in Heilongjiang province and Jilin province and are principally engaged in the production and distribution of milk powders and other dairy products in the PRC. Feihe Dairy HLJ is a wholly-owned subsidiary of China Feihe.

DEFINITIONS

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

“Annual Cap”	the annual cap of RMB29 million for the period from 2 August 2023 to 31 December 2023 in connection with the Processing Service
“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
“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 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
“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
“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

“Processing Framework Agreement”	the Processing Framework Agreement dated 2 August 2023 entered into between the Company and Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) in connection with the Processing Service to be provided by Feihe Dairy HLJ
“Processing Service”	the service to be provided by Feihe Dairy HLJ (for itself and on behalf of its subsidiaries) to the Company in connection with the processing of raw milk into full cream milk powder according to the prescribed quality standards and specifications provided by the Company as set out in the Processing Framework Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“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
“%”	per cent

* For identification purposes only

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

Hong Kong, 2 August 2023

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.