

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
2023 FEIHE MASTER AGREEMENT**

BACKGROUND

We refer to the announcement of YuanShengTai Dairy Farm Limited (the “**Company**”) dated 14 October 2022 (the “**Announcement**”) and the circular of the Company dated 23 November 2022 (the “**Circular**”) in relation to, among other matters, the continuing connected transactions under the 2023 Feihe Master Agreement. Unless otherwise defined in this announcement, capitalised terms used herein shall have the same meanings as those defined in the Announcement and the Circular.

The Group has, since 1 November 2013, been selling raw milk to Feihe Dairy Group pursuant to a series of master agreements. On 14 October 2022, the Company entered into the 2023 Feihe Master Agreement with China Feihe to confirm the Group’s supply of raw milk to Feihe Dairy Group for a term commencing from 1 January 2023 and ending on 31 December 2025.

PROPOSED REVISION OF ANNUAL CAPS

The following table sets out the annual caps in monetary terms in respect of the transactions contemplated under the 2023 Feihe Master Agreement for each of the three years ending 31 December 2025 as contained in the Circular:

Year ending 31 December	Annual caps for the sale volume of raw milk to Feihe Dairy Group pursuant to the 2023 Feihe Master Agreement (RMB million)
2023	2,500
2024	3,000
2025	3,400

In the Circular, the Company expected that the revenue contribution from Feihe Dairy Group as a percentage of the Group's total revenue will remain at around 90% for each of the three years ending 31 December 2025 (the "**90% Limit**"). The Company undertook that the 90% Limit would form part of the annual caps for the three years ending 31 December 2025 in addition to the numerical figures.

The Company has been closely monitoring the transaction amounts with Feihe Dairy Group and independent third-party customers, and calculating the revenue contribution from Feihe Dairy Group and independent third-party customers on a monthly basis. In order to increase the sales to independent third-party customers and broaden its customer base, the Company has taken various measures, including (i) expanding its sales team to actively search for new customers; (ii) providing training to its sales team in relation to skills to approach and draw in new clients; (iii) arranging the sales team to visit nearby potential customers regularly; and (iv) offering competitive selling prices to independent third-party customers. For the year ended 31 December 2023, Feihe Dairy Group contributed approximately 89.5% of the Group's total revenue.

However, due to the change of market conditions and the structural imbalance between supply and demand for raw milk, the Company proposes to adjust the limit of the revenue contribution from Feihe Dairy Group as a percentage of the Group's total revenue from 90% to 96% for each of the two years ending 31 December 2025 (the "**Proposed Limit Adjustment**").

Save for the Proposed Limit Adjustment, the terms of the 2023 Feihe Master Agreement and the annual caps in monetary terms in respect of the transactions contemplated under the 2023 Feihe Master Agreement for each of the three years ending 31 December 2025 will remain unchanged.

REASONS AND BASIS FOR THE PROPOSED LIMIT ADJUSTMENT

(1) Severely Deteriorating Market Conditions

The 90% Limit undertaking was made by the Group in the Circular based on the prevailing market conditions at that time. However, since 2023, there has been a growing supply-demand imbalance in the domestic raw milk market. Due to weak demand for dairy products and the increase in raw milk production, the dairy industry is facing a serious surplus of raw milk production, leading to a continuous decline in raw milk prices. The indicative milk price determined by the Heilongjiang Fresh Milk Price Coordination Committee (黑龍江省生鮮乳價格協調委員會) has continuously decreased from RMB4.10 per kilogram in the first quarter of 2023 to RMB3.57 per kilogram in the third quarter of 2024, representing a significant decrease of 12.9%. According to data from the Ministry of Agriculture and Rural Affairs of the PRC, in September 2024, the average price of raw milk in 10 major producing provinces such as Inner Mongolia and Heilongjiang was RMB3.14 per kilogram, representing a month-on-month decrease of 1.9% and a year-on-year decrease of 15.8%.

In response to the severe market conditions, the Company has been actively reaching out to major dairy enterprises and putting significant efforts into sales to independent third-party customers. For the nine months ended 30 September 2024, the Company has sold around 34,400 tons of raw milk to independent third-party customers. However, due to weak market demand, the demand from independent third-party customers cannot cover the Company's raw milk production volume. If the Company is not allowed to sell to Feihe Dairy Group as a result of the 90% Limit, the unsold raw milk will be wasted or spoiled, which will seriously harm the interests of the Company and its shareholders.

(2) In Line with the Demand of Feihe Dairy Group

Despite the unfavourable overall market conditions in the dairy industry, Feihe Dairy Group has still experienced growth in 2024. For the six months ended 30 June 2024, Feihe Dairy Group's revenue and profit for the period were RMB10,094.9 million and RMB1,911.5 million, representing an increase of 3.7% and 18.1%, respectively, as compared to the same period last year. Along with Feihe Dairy Group's robust performance in sales of infant milk formula products, its demand for raw materials such as raw milk has remained strong. Considering the strategic collaboration between Feihe Dairy Group and the Group and the high quality of the Company's raw milk, Feihe Dairy Group has been procuring raw milk from the Company at a price not less favourable than the indicative milk price determined by the Heilongjiang Fresh Milk Price Coordination Committee.

Therefore, the Proposed Limit Adjustment is in line with the business demands from Feihe Dairy Group. Upon the approval of the Proposed Limit Adjustment, Feihe Dairy Group could benefit from transactions under the 2023 Feihe Master Agreement to satisfy its demand for high quality raw milk and secure a stable supply, and the Group could also benefit from a stable and strong source of demand.

(3) Common Market Practice in the Dairy Industry

The upstream and downstream industry players in China's dairy industry are highly interdependent. On the one hand, as the competitive landscape in the downstream market of China's dairy industry has been increasingly concentrated, raw milk suppliers mainly sell their products to a limited number of top dairy products manufacturers in the downstream. On the other hand, large-scale dairy product manufacturers generally incline to establish long-term and stable relationships with trustful raw milk suppliers in the upstream to secure stable supply and product safety and quality. It is a common market practice in the dairy industry in China for a dairy farming company to have a high customer concentration.

(4) Basis for the Proposed Limit Adjustment

Based on the management accounts of the Company, the sales to Feihe Dairy Group amounted to approximately RMB1,724.4 million for the nine months ended 30 September 2024, representing approximately 93.6% of the Group's total revenue for the same period. According to the Company's communication with independent third-party customers, those customers have low purchasing intentions for raw milk from the Company in the fourth quarter of 2024. It is expected that the sales volume to independent third-party customers will be minimal in the fourth quarter of 2024. Based on the raw milk production volume of the Group and selling price agreed with China Feihe, if all sales in the fourth quarter of 2024 are made to Feihe Dairy Group, the total sales amount of the Company to Feihe Dairy Group are expected to account for more than 95% of total revenue of the Group in 2024. Based on the current market conditions and trends in raw milk prices, the Company's sales result and proportion in 2025 are expected to be similar to those in 2024.

The Directors are of the view that the Proposed Limit Adjustment is fair and reasonable, in the ordinary and usual course of business, and in the interests of the Company and its shareholders as a whole.

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.

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 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 annual caps under the 2023 Feihe Master Agreement are more than 5%, 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.

As the Proposed Limit Adjustment will constitute a revision of the annual caps for the transactions contemplated under the 2023 Feihe Master Agreement, the Company is required to re-comply with the announcement and shareholders' approval requirements pursuant to Rule 14A.54 of the Listing Rules.

An Independent Board Committee has been established to advise the Independent Shareholders on the Proposed Limit Adjustment. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The Company will convene a special general meeting (the "SGM") to seek approval from the Independent Shareholders in respect of, among other matters, the Proposed Limit Adjustment.

A circular containing, among others, (i) the letter from the Board containing further information on the Proposed Limit Adjustment, (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 December 2024.

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

Hong Kong, 18 November 2024

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Zhao Hongliang (Chairman), Mr. Zhang Yongjiu (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.