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YuanShengTai Dairy Farm Limited

原 生 態 牧 業 有 限 公 司

(Incorporated in Bermuda with limited liability)

(Stock code: 1431)

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

Reference is made to the Prospectus and the Feihe Master Agreement entered into between, (a) Ruixinda and Ruixincheng on the one part and (b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries), pursuant to which the Group has been selling and will continue to sell raw milk during the period from 1 November 2013 to 31 December 2015.

The Company currently estimates that given the expected increase in the overall sales volume of Feihe Dairy Group and based on the long-term relationship between Feihe Dairy Group and the Group, thereby leading to an 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 Feihe Master Agreement for the year ending 31 December 2014 and 31 December 2015 are expected to exceed the original annual caps as disclosed in the Prospectus. As such, the Company intends to revise the annual caps for the year ending 31 December 2014 and 31 December 2015 under the Feihe Master Agreement in respect of the sale of raw milk by the Group to Feihe Dairy Group.

Feihe Dairy Group is deemed by the Stock Exchange as a connected person of the Company pursuant to Rule 14A.19 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 ratios in respect of the proposed revised annual caps under the Feihe Master Agreement are 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.

The Company will convene a SGM to seek approval from the Independent Shareholders in respect of the continuing connected transactions under the Feihe Master Agreement (including the proposed revised annual caps). A circular containing, among other things, the details of the Feihe Master Agreement, the transactions contemplated thereunder and the proposed revised 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 21 November 2014 in accordance with the Listing Rules.

Reference is made to the Prospectus and the Feihe Master Agreement entered into between, (a) Ruixinda and Ruixincheng on the one part and (b) Feihe Dairy HLJ (for itself and on behalf of its subsidiaries), pursuant to which the Group has been selling and will continue to sell raw milk during the period from 1 November 2013 to 31 December 2015.

PRINCIPAL TERMS OF THE FEIHE MASTER AGREEMENT

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

Contract period:	26 months from 1 November 2013 to 31 December 2015
Determination of purchase price and other terms:	For each order to be placed under the Feihe Master Agreement, the purchase price or consideration, the quantity and quality of milk concerned, the time and place of delivery of the milk concerned and other relevant matters will be negotiated by the parties (on arm's length basis and in good faith) with reference to the then prevailing market prices of the raw milk, as well as (where applicable) prevailing market prices of similar products which may be sourced from other Independent Third Parties.
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. (<i>Note</i>)
Early termination:	Both parties may, at any time during the contract term, give the other not less than three months' prior written notice to terminate the agreement.

Note: Payment will be made by Feihe Dairy HLJ through a set-off arrangement pursuant to the supplemental agreement entered into between Ruixinda and Feihe Dairy HLJ on 25 April 2013, pursuant to which Feihe Dairy HLJ unconditionally and irrevocably waived Ruixinda's past obligation from fulfilling its payment obligations and legal liabilities potentially arising out of any shortfall of raw milk delivery under such exclusive raw milk supply contract.

REVISION OF ANNUAL CAPS

The Company currently estimates that given the expected increase in the overall sales volume of Feihe Dairy Group and based on the long-term relationship between Feihe Dairy Group and the Group, thereby leading to an 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 Feihe Master Agreement for the year ending 31 December 2014 and 31 December 2015 are expected to exceed the original annual caps as disclosed in the Prospectus. As such, the Company intends to revise the annual caps for the year ending 31 December 2014 and 31 December 2015 under the Feihe Master Agreement in respect of the sale of raw milk by the Group to Feihe Dairy Group.

As at the date of this announcement, the transaction amounts of the continuing connected transactions under the Feihe Master Agreement have not exceeded the original annual caps for the year ending 31 December 2014 as disclosed in the Prospectus.

Annual caps for continuing connected transactions between the Group and Feihe Dairy Group

The Company proposes to revise the annual caps for the year ending 31 December 2014 and 31 December 2015 in respect of the sale of raw milk by the Group to Feihe Dairy Group from RMB520 million to RMB660 million for the year ending 31 December 2014 and from RMB660 million to RMB838 million for the year ending 31 December 2015. Such estimates are calculated based on (i) the historical amount of sales of raw milk for the nine months ended 30 September 2014; and (ii) the projected quantities of sale by the Group to Feihe Dairy Group for the two years ending 31 December 2015.

The historical amounts of such continuing connected transactions for the year ended 31 December 2013 and the six months ended 30 June 2014 were approximately RMB319 million (equivalent to approximately HK\$399 million) and RMB294 million (equivalent to approximately HK\$367 million), respectively.

REASONS AND BENEFITS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Group's sales to Feihe Dairy Group, being one of the Group's top five customers, is particularly important to the business of the Group. It is expected that the increase in sales 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, other than the independent non-executive Directors who will express their opinion in a separate letter to be included in the circular, consider that the continuing connected transactions contemplated under the Feihe Master Agreement have been conducted on normal commercial terms, are fair and reasonable and in the interests of the Company and the shareholders as a whole, and that the proposed revised annual caps for the continuing connected transactions contemplated under the Feihe Master Agreement are fair and reasonable.

IMPLICATIONS OF THE LISTING RULES

Feihe Dairy Group (comprising Feihe Dairy HLJ 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, it is deemed by the Stock Exchange as a connected person pursuant to Rule 14A.19 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.

In respect of the sales of raw milk by the Group under the Feihe Master Agreement, the proposed revised annual caps for each of the two years ending 31 December 2015 would not exceed RMB660 million and RMB838 million, respectively. For each of the two years ending 31 December 2015, given that the highest applicable percentage ratio of the transactions contemplated under the 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.

The Company will convene a SGM to seek approval from the Independent Shareholders in respect of the continuing connected transactions under the Feihe Master Agreement (including the proposed revised 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 Quam Capital Limited 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 Feihe Master Agreement, the transactions contemplated thereunder and the proposed revised 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 21 November 2014 in accordance with the Listing Rules.

The Company will continue to monitor and cross-check the Group’s actual amount of sales to Feihe Dairy Group under the Feihe Master Agreement against the original annual cap for the year ending 31 December 2014 to ensure it will not be exceeded before the relevant Independent Shareholders’ approval could be obtained at the proposed SGM.

GENERAL INFORMATION

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

Feihe Dairy Group is based in Heilongjiang and is principally engaged in the production and distribution of milk powders and other dairy products in China.

DEFINITIONS

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

“associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“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 Feihe Dairy International and Feihe Dairy HLJ and its subsidiaries, 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 one of our customers, an Independent Third Party and also a former owner of YST Heping and Ruixinda Gannan, whose ultimate beneficial owner is Feihe Dairy International
“Feihe Dairy International”	Feihe 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 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 Chapter 14A of the Listing Rules
“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 Feihe Master Agreement and the proposed revised annual caps

“Independent Financial Adviser”	Quam 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
“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
“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 Feihe Master Agreement and the proposed revised annual caps

“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, 31 October 2014

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Zhao Hongliang, Mr. Wang Shaogang, Mr. Fu Wenguo and Ms. Su Shiqin; two non-executive Directors, namely Mr. Sun Wei and Mr. Lau Ho Fung; and three independent non-executive Directors, namely Mr. Wu Chi Keung, Mr. Zhang Yuezhou and Mr. Zhu Zhanbo.