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Yashili International Holdings Ltd

雅士利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1230)

CONTINUING CONNECTED TRANSACTIONS

(1) REVISION OF PROPOSED ANNUAL CAPS OF

**CONTINUING CONNECTED TRANSACTIONS UNDER THE FRAMEWORK
AGREEMENT WITH MENGNIU DAIRY**

AND

**(2) EXTENSION OF THE TERM OF THE FRAMEWORK PURCHASE AGREEMENT
WITH INNER MONGOLIA MENGNIU**

**REVISION OF PROPOSED ANNUAL CAPS OF CONTINUING CONNECTED
TRANSACTIONS UNDER THE FRAMEWORK AGREEMENT WITH MENGNIU DAIRY**

Reference is made to the announcement of the Company dated 2 July 2018 in relation to the Framework Agreement with Mengniu Dairy (the “**July Announcement**”).

The Group expects that (i) the Mengniu Group will increase its purchase amount of the goods (primarily finished goods) from the Group since 2019, which is Type I CCT under the Framework Agreement with Mengniu Dairy; (ii) it will increase its purchase amount of the goods (primarily raw materials) from the Mengniu Group in 2019, which is Type II CCT under the Framework Agreement with Mengniu Dairy; (iii) the expected total transaction amount of the Type III CCT under the Framework Agreement with Mengniu Dairy will be reduced; and (iv) it will provide newly planned processing service to the Mengniu Group from 2019 at the earliest, which is Type IV CCT under the Framework Agreement with Mengniu Dairy. In addition, since the EGM to approve, among others, the Framework Agreement with Mengniu Dairy and the transactions contemplated thereunder will be held in 2019 instead of in 2018 as originally planned, the Proposed Annual Caps in relation to the year of 2018 will no longer be applicable, and the length of the period commencing from 1 January 2021 to the expiry date of the Framework Agreement with Mengniu Dairy, being three years from the Effective Date, will be increased. As a result, the Board would like to adjust the Proposed Annual Caps in the July Announcement in respect of each type of continuing connected transactions contemplated under the Framework Agreement with Mengniu Dairy for the Periods to the Revised Annual Caps.

As of the date of this announcement, Mengniu International, a subsidiary of Mengniu Dairy, holds 51.04% of the shares of the Company and is a substantial Shareholder of the Company. Therefore, Mengniu Dairy is a connected person of the Company, and the entering into of the Framework Agreement with Mengniu Dairy and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (other than the profits ratio) in respect of the Framework Agreement with Mengniu Dairy (with the Revised Annual Caps) is more than 5%, the Framework Agreement with Mengniu Dairy and the transactions contemplated thereunder are subject to the independent shareholders' approval, reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

EXTENSION OF THE TERM OF THE FRAMEWORK PURCHASE AGREEMENT WITH INNER MONGOLIA MENGNIU

Reference is made to the announcement of the Company dated 9 March 2017 in relation to the Framework Purchase Agreement with Inner Mongolia Mengniu (the “**March Announcement**”). On 31 December 2018, the Board resolved to allow the Framework Purchase Agreement to extend for two years in accordance with its terms.

As of 31 December 2018, none of the Purchasers or Inner Mongolia Mengniu has delivered any written notice in respect of termination of the Framework Purchase Agreement to the other party. Therefore, the term of the Framework Purchase Agreement shall be extended for two years.

As Mengniu Dairy is a connected person of the Company, Inner Mongolia Mengniu is a subsidiary of Mengniu Dairy and each of the Purchasers is a subsidiary of the Company, the Extension constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (other than the profits ratio) in respect of the Framework Purchase Agreement (as extended pursuant to the Extension) exceeds 0.1% but is less than 5%, the Extension is subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Upon taking effect of the Framework Agreement with Mengniu Dairy, the Framework Purchase Agreement (as extended pursuant to the Extension) and the transactions contemplated thereunder will be subject to the Framework Agreement with Mengniu Dairy.

REVISION OF PROPOSED ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTIONS UNDER THE FRAMEWORK AGREEMENT WITH MENGNIU DAIRY

Background

Reference is made to the July Announcement.

Revision of Proposed Annual Caps

The Group expects that (i) the Mengniu Group will increase its purchase amount of the goods (primarily finished goods) from the Group since 2019, which is Type I CCT under the Framework Agreement with Mengniu Dairy; (ii) it will increase its purchase amount of the goods (primarily raw materials) from the Mengniu Group in 2019, which is Type II CCT under the Framework Agreement with Mengniu Dairy; (iii) the expected total transaction amount of the Type III CCT under the Framework Agreement with Mengniu Dairy will be reduced; and (iv) it will provide newly planned processing service to the Mengniu Group from 2019 at the earliest, which is Type IV CCT under the Framework Agreement with Mengniu Dairy. In addition, since the EGM to approve, among others, the Framework Agreement with Mengniu Dairy and the transactions contemplated thereunder will be held in 2019 instead of in 2018 as originally planned, the Proposed Annual Caps in relation to the year of 2018 will no longer be applicable, and the length of the period commencing from 1 January 2021 to the expiry date of the Framework Agreement with Mengniu Dairy, being three years from the Effective Date, will be increased. As a result, the Board would like to adjust the Proposed Annual Caps in the July Announcement in respect of each type of continuing connected transactions contemplated under the Framework Agreement with Mengniu Dairy for the Periods to the Revised Annual Caps.

Revised Annual Caps

The Proposed Annual Caps and the Revised Annual Caps are set out below:

Type of continuing connected transactions contemplated under the Framework Agreement with Mengniu Dairy	The Effective Date to		1 January 2020 to		1 January 2021 to		1 January 2022 to the	
	31 December 2019		31 December 2020		31 December 2021		expiry date of the	
	<i>(RMB in millions)</i>		<i>(RMB in millions)</i>		<i>(RMB in millions)</i>		Framework Agreement	
	Proposed Annual Cap	Revised Annual Cap	Proposed Annual Cap	Revised Annual Cap	Proposed Annual Cap	Revised Annual Cap	Proposed Annual Cap	Revised Annual Cap
Type I	15	265	16	305	15	350	/	67
Type II	170	364	188	470	145	610	/	132
Type III	45	35	50	39	45	43	/	8
Type IV	138	168	175	190	145	213	/	40

The Revised Annual Caps were determined after having taken into account: (i) the relevant transaction amounts for the year ended 31 December 2017 and the eleven months ended 30 November 2018; (ii) the estimated demand of the Group and the Mengniu Group for the goods and services during the Periods; and (iii) the potential synergies between the Group and the Mengniu Group from the transactions contemplated under the Framework Agreement with Mengniu Dairy.

Save for the revision of the Proposed Annual Caps, all the other terms of the Framework Agreement with Mengniu Dairy as disclosed in the July Announcement remain unchanged.

The Directors (excluding the independent non-executive Directors (whose views will be set out in the letter from the independent board committee to be included in the circular to be despatched to the Shareholders)) are of the view that the Framework Agreement with Mengniu Dairy and the transactions contemplated thereunder (including the Revised Annual Caps) are conducted on an arm's length basis, on normal commercial terms and in the ordinary and usual course of business of the Group, and that the Revised Annual Caps and other terms of the Framework Agreement with Mengniu Dairy are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Historical Transaction Amounts

For the eleven months ended 30 November 2018, members of the Group has entered into, among others, the following transactions with members of the Mengniu Group, which constituted continuing connected transactions of the Group and will be subject to the Framework Agreement with Mengniu Dairy upon its taking effect:

Date	Transaction	Type	Parties	Duration	Transaction Amount
					for the eleven months ended 30 November 2018 (unaudited) (RMB in millions)
9 March 2017	Framework Purchase Agreement in relation to sale and purchase of raw materials	Type II	Dumex China, Yashili (Guangdong), Yashili (Shanxi), Oushi Mengniu and Inner Mongolia Mengniu	9 March 2017 to 31 December 2018	0.98
22 August 2017	Framework purchase agreement in relation to sale and purchase of raw materials	Type II	Dumex China, Yashili (Guangdong), Yashili (Shanxi), Oushi Mengniu and Tianjin New Value	22 August 2017 to 31 July 2019	60.66
1 January 2018	Processing agreement in relation to the provision of processing services in respect of whole milk powder, skim milk powder and other products	Type IV	Oushi Mengniu, Yashili (Shanxi) and Inner Mongolia Mengniu	1 January 2018 to 31 December 2020	63.43

Date	Transaction	Type	Parties	Duration	Transaction Amount for the eleven months ended 30 November 2018 (unaudited) (RMB in millions)
16 March 2018	Settlement agreement in relation to the settlement of the consideration for the purchase of tickets for the 2018 FIFA World Cup	Type III	Yashili (Maanshan) and Inner Mongolia Mengniu	N/A	3.26
13 April 2018	Settlement agreement in relation to the settlement of certain FIFA Sponsorship Rights relating to the 2018 FIFA World Cup	Type III	Yashili (Maanshan) and Inner Mongolia Mengniu	N/A	5.62
2 October 2018	Distribution agreement in relation to the distribution of certain products of the Group via a number of designated e-commerce platforms by the Mengniu Group	Type I	Yashili (Maanshan) and Inner Mongolia Digital Technology	2 October 2018 to 31 December 2018	9.59

As at the date of this announcement, based on the Group's latest unaudited management accounts and operational data, the actual transaction amount of each type of the continuing connected transactions under the Framework Agreement with Mengniu Dairy for the year ending 31 December 2018 has not exceeded the relevant Proposed Annual Caps.

Listing Rules Implications

As of the date of this announcement, Mengniu International, a subsidiary of Mengniu Dairy, holds 51.04% of the shares of the Company and is a substantial Shareholder of the Company. Therefore, Mengniu Dairy is a connected person of the Company, and the entering into of the Framework Agreement with Mengniu Dairy and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (other than the profits ratio) in respect of the Framework Agreement with Mengniu Dairy (with the Revised Annual Caps) is more than 5%, the Framework Agreement with Mengniu Dairy and the transactions contemplated thereunder are subject to the independent shareholders' approval, reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

Mr. Jeffrey, Minfang Lu is an executive director and chief executive officer of Mengniu Dairy. Mr. Zhang Ping is the chief financial officer of Mengniu Dairy. Accordingly, each of Mr. Jeffrey, Minfang Lu and Mr. Zhang Ping is considered to have a material interest in the Framework Agreement with Mengniu Dairy and the transactions contemplated thereunder. As such, each of Mr. Jeffrey, Minfang Lu and Mr. Zhang Ping abstained from voting on the relevant board resolutions approving the Revised Annual Caps.

General

The EGM will be convened by the Company during which an ordinary resolution will be proposed to the independent Shareholders to approve, among others, the Framework Agreement with Mengniu Dairy and the transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, other than Mengniu Dairy and its associates, no other Shareholder will be required to abstain from voting on the resolution approving the Framework Agreement with Mengniu Dairy at the EGM.

The independent board committee comprising all the independent non-executive Directors has been established to consider, among others, the terms of the Framework Agreement with Mengniu Dairy, and to advise and make recommendations to the independent Shareholders as to how to vote at the EGM on the resolution in relation to, among others, the Framework Agreement with Mengniu Dairy. No member of the independent board committee has any material interest in the Framework Agreement with Mengniu Dairy and the transactions contemplated thereunder.

Somerley Capital Limited has been appointed as the independent financial adviser in accordance with the Listing Rules to advise the independent board committee and independent Shareholders as to, among others, whether the terms of the Framework Agreement with Mengniu Dairy (including the Revised Annual Caps) are fair and reasonable, and whether the Framework Agreement with Mengniu Dairy and the transactions contemplated thereunder are conducted on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, as well as how to vote.

EXTENSION OF THE TERM OF THE FRAMEWORK PURCHASE AGREEMENT WITH INNER MONGOLIA MENGNIU

Background

Reference is made to the March Announcement. As disclosed in the March Announcement,

- (i) the Framework Purchase Agreement shall be effective during the Initial Term;
- (ii) the term of the Framework Purchase Agreement shall be extended for two more years if no written request is delivered by a party to the other party before the expiry of the Initial Term; and

(iii) The Board will consider whether to extend the term of the Framework Purchase Agreement in due course based on the business need of the Company; and in the event that the term of the Framework Purchase Agreement will be extended beyond the Initial Term, the Company will re-comply with all applicable requirements under the Listing Rules.

Extension of the Framework Purchase Agreement

On 31 December 2018, the Board resolved to allow the Framework Purchase Agreement to extend for two years in accordance with its terms.

As of 31 December 2018, none of the Purchasers or Inner Mongolia Mengniu has delivered any written notice in respect of termination of the Framework Purchase Agreement to the other party. Therefore, the term of the Framework Purchase Agreement shall be extended for two years.

Historical Transaction Amounts

The historical transaction amount of the transactions under the Framework Purchase Agreement for the eleven months ended 30 November 2018 was approximately RMB0.98 million (unaudited), as disclosed in the sub-section headed “Historical Transaction Amounts” of the section headed “REVISION OF PROPOSED ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTIONS UNDER THE FRAMEWORK AGREEMENT WITH MENGNIU DAIRY” above in this announcement.

The historical transaction amount of the transactions under the Framework Purchase Agreement during the year ended 31 December 2017 was approximately RMB48.25 million.

Annual Caps

The annual caps in respect of the aggregate consideration of the transactions contemplated under the Framework Purchase Agreement (as extended pursuant to the Extension) for each of the years ending 31 December 2019 and 31 December 2020 shall be RMB30 million.

The above annual caps were determined after taking into account (i) the expected types of raw materials to be purchased; (ii) the expected unit price of raw material to be purchased; and (iii) the expected volume of raw materials to be purchased by the Purchasers for the years ending 31 December 2019 and 31 December 2020.

Information on the Company, the Purchasers and Inner Mongolia Mengniu

The Company is an investment holding company, which, along with its subsidiaries, is primarily engaged in the manufacturing and sale of dairy and nourishment products. It operates in the following segments: (a) production and sale of milk powder products (including the development, manufacture and sale of milk powder products in the PRC and overseas); (b) sale of dissolvable products (including the development, manufacture and sale of soymilk powder, rice flour and cereal products); (c) other operations (mainly including the sale of surplus raw materials, the production and sale of base-powder and consigned processing operation).

Dumex China is a company established in the PRC and an indirect wholly-owned subsidiary of the Company. It is principally engaged in manufacturing, sale and import of dairy products and other related nutrition products.

Yashili (Guangdong) is a company established in the PRC and an indirect wholly-owned subsidiary of the Company. It is principally engaged in the production and sale of dairy products.

Yashili (Shanxi) is a company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company. It is principally engaged in the production and sale of dairy products.

Oushi Mengniu is a company incorporated in the PRC and a wholly-owned subsidiary of the Company. It is primarily engaged in the manufacturing and sale of pediatric milk formula products and milk powder products for adults.

Inner Mongolia Mengniu is a company established in the PRC and a subsidiary of Mengniu Dairy. It is primarily engaged in the manufacturing and sale of dairy products.

Reasons for and Benefits of the Extension

The Directors expect that the Extension would enable the Company to continue to procure high quality raw materials from a stable source and reduce its procurement costs for raw materials.

The Directors (including the independent non-executive Directors) are of the view that the Extension is on arm's length basis and on normal commercial terms in the ordinary and usual course of business of the Company and that the Extension and the proposed annual caps are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Listing Rules Implications

As Mengniu Dairy is a connected person of the Company, Inner Mongolia Mengniu is a subsidiary of Mengniu Dairy and each of the Purchasers is a subsidiary of the Company, the Extension constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (other than the profits ratio) in respect of the Framework Purchase Agreement (as extended pursuant to the Extension) exceeds 0.1% but is less than 5%, the Extension is subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Jeffrey, Minfang Lu is an executive director and chief executive officer of Mengniu Dairy. Mr. Zhang Ping is the chief financial officer of Mengniu Dairy. Accordingly, each of Mr. Jeffrey, Minfang Lu and Mr. Zhang Ping is considered to have a material interest in the Extension. As such, each of Mr. Jeffrey, Minfang Lu and Mr. Zhang Ping abstained from voting on the relevant board resolution approving the Extension.

Upon taking effect of the Framework Agreement with Mengniu Dairy, the Framework Purchase Agreement (as extended pursuant to the Extension) and the transactions contemplated thereunder will be subject to the Framework Agreement with Mengniu Dairy.

DEFINITIONS

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

“Board”	the board of Directors
“Company”	Yashili International Holdings Ltd, a company listed on the Main Board of the Stock Exchange (stock code: 1230)
“connected person”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Dumex China”	Dumex Baby Food Co., Ltd.* (多美滋嬰幼兒食品有限公司), an indirectly wholly-owned subsidiary of the Company
“Effective Date”	the date upon which the Framework Agreement with Mengniu Dairy takes effect pursuant to its terms, being the date of the approval by the independent Shareholders of the Framework Agreement with Mengniu Dairy and the transactions contemplated thereunder at the EGM
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve, among others, the Framework Agreement with Mengniu Dairy and the transactions contemplated thereunder
“Extension”	The extension of the term of the Framework Purchase Agreement with Inner Mongolia dated 9 March 2017 for two years beyond the Initial Term
“Framework Agreement with Mengniu Dairy”	the framework agreement dated 29 June 2018 between the Company and Mengniu Dairy in respect of the Type I CCT, Type II CCT, Type III CCT and Type IV CCT
“Framework Purchase Agreement”	the framework purchase agreement with Inner Mongolia Mengniu dated 9 March 2017 between the Purchasers and Inner Mongolia Mengniu in respect of the purchase of raw materials by the Purchasers from Inner Mongolia Mengniu
“Group”	the Company and its subsidiaries

“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong Special Administrative Region of the PRC
“Initial Term”	9 March 2017 to 31 December 2018, being the initial term of the Framework Purchase Agreement
“Inner Mongolia Digital Technology”	Inner Mongolia Digital Technology Digital Distribution Co., Ltd.* (內蒙古數科數字營銷有限公司), a company established in the PRC and a wholly-owned subsidiary of Inner Mongolia Mengniu
“Inner Mongolia Mengniu”	Inner Mongolia Mengniu Dairy (Group) Company Limited* (內蒙古蒙牛乳業(集團)股份有限公司), a company established in the PRC and a subsidiary of Mengniu Dairy
“July Announcement”	the announcement of the Company dated 2 July 2018 in relation to the Framework Agreement with Mengniu Dairy between the Group and Mengniu Dairy
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“March Announcement”	the announcement of the Company dated 9 March 2018 in relation to the entering into of the Framework Purchase Agreement between Inner Mongolia Mengniu and the Purchasers
“Mengniu Dairy”	China Mengniu Dairy Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2319)
“Mengniu Group”	Mengniu Dairy and its subsidiaries
“Mengniu International”	China Mengniu International Company Limited, a company incorporated in the British Virgin Islands and a subsidiary of Mengniu Dairy. As at the date of this announcement, it is a substantial Shareholder of the Company, holding approximately 51.04% of the issued share capital of the Company
“Oushi Mengniu”	Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd.* (內蒙古歐世蒙牛乳製品有限責任公司), a wholly-owned subsidiary of the Company
“Periods”	the periods commencing from the Effective Date to 31 December 2019, for each of the years ending 31 December 2020 and 2021 respectively, and the period commencing from 1 January 2022 to the expiry date of the Framework Agreement with Mengniu Dairy (being three years from the Effective Date)

“PRC”	the People’s Republic of China
“Products”	certain types of finished products of the Group, including milk powder and cereals
“Purchasers”	Dumex China, Yashili (Guangdong), Yashili (Shanxi) and Oushi Mengniu
“Proposed Annual Caps”	the annual caps of the continuing connected transactions contemplated under the Framework Agreement with Mengniu Dairy for the Periods as proposed in the July Announcement
“Revised Annual Caps”	the revised annual caps of each type of the continuing connected transactions contemplated under the Framework Agreement with Mengniu Dairy for the Periods as disclosed in the sub-section headed “Revised Annual Caps” in the section headed “REVISION OF PROPOSED ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTIONS UNDER THE FRAMEWORK AGREEMENT WITH MENGNIU DAIRY” in this announcement
“RMB”	Renminbi, the lawful currency of PRC
“Shareholder(s)”	person(s) whose name(s) appear on the register of members of the Company as registered holder(s) of the share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianjin New Value”	Tian Jin New Value Supply Chain Company Limited* (天津通瑞供應鏈有限公司), a company established in the PRC and a subsidiary of Mengniu Dairy
“Type I CCT”	The transactions contemplated under the Framework Agreement with Mengniu Dairy in relation to purchase of goods by Mengniu Group from the Group
“Type II CCT”	The transactions contemplated under the Framework Agreement with Mengniu Dairy in relation to purchase of goods by the Group from the Mengniu Group
“Type III CCT”	The transactions contemplated under the Framework Agreement with Mengniu Dairy in relation to provision of services by the Mengniu Group to the Group

“Type IV CCT”	The transactions contemplated under the Framework Agreement with Mengniu Dairy in relation to provision of services by the Group to the Mengniu Group
“Yashili (Guangdong)”	Yashili International Group Limited* (雅士利國際集團有限公司), an indirect wholly-owned subsidiary of the Company
“Yashili (Maanshan)”	Yashili Dairy (Maanshan) Distribution Co., Ltd.* (雅士利乳業(馬鞍山)銷售有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of the Company
“Yashili (Shanxi)”	Shanxi Yashili Dairy Co., Ltd.* (山西雅士利乳業有限公司), an indirect wholly-owned subsidiary of the Company
“%”	per cent.

* *English names of the PRC entities are literal translation of their Chinese names and are included for identification purpose only.*

This announcement contains translation between Renminbi and Hong Kong dollars at RMB1.00 to HK\$1.14129. The translation shall not be taken as representation that Renminbi could actually be converted into Hong Kong dollars at that rate, or at all.

By order of the Board
Yashili International Holdings Ltd
 雅士利國際控股有限公司
Chopin Zhang
Chief Executive Officer and Executive Director

Hong Kong, 31 December 2018

As at the date of this announcement, the Board comprises: Mr. Jeffrey, Minfang Lu (Chairman), Mr. Qin Peng, Mr. Zhang Ping and Ms. Lam Pik Po, Katty as non-executive directors; Mr. Chopin Zhang as executive director; and Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway as independent non-executive directors.