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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 TRANSACTION
SUPPLY AGREEMENT WITH SHANGHE**

THE SUPPLY AGREEMENT

On 7 January 2019, Oushi Mengniu, a wholly-owned subsidiary of the Company, entered into the Supply Agreement with Shanghe, pursuant to which Oushi Mengniu agreed to purchase, and Shanghe agreed to sell, the Products from time to time during the term of the Supply Agreement.

LISTING RULES IMPLICATIONS

Mengniu Dairy is the parent company of Mengniu International, a substantial shareholder of the Company, and is therefore a connected person of the Company. Shanghe is an indirect subsidiary of Modern Dairy, which is in turn owned as to 60.77% by Mengniu Dairy. Therefore, Shanghe is an associate of Mengniu Dairy under Rule 14A.13 of the Listing Rules and a connected person of the Company. On the other hand, Oushi Mengniu is a wholly-owned subsidiary of the Company. Therefore, the entering into of the Supply Agreement 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 Supply Agreement exceeds 0.1% but is less than 5%, the Supply Agreement and the transactions contemplated thereunder are subject to reporting, annual review and announcement requirements but exempt from the independent shareholders' approval under Chapter 14A of the Listing Rules.

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Principal terms of the Supply Agreement are summarized below.

Date	7 January 2019
Parties	(1) Oushi Mengniu as purchaser (2) Shanghe as supplier
Duration	7 January 2019 to 31 December 2019
Products	Raw milk
Pricing Terms	The unit price of the Products shall be determined based on a cost-plus approach, i.e., cost plus a reasonable margin, which varies within the range of 12% to 16%, with reference to the market price of raw milk. In case of any change in the raw milk market, the price shall be adjusted as agreed by the parties.
Payment Terms	The payment shall be settled on a monthly basis. The parties shall confirm the total payment amount for the previous month before the tenth day of the current month, and Shanghe shall issue the invoice accordingly. Oushi Mengniu shall pay the total payment amount for the previous month within 10 business days upon receipt of the relevant invoice from Shanghe.

The price and terms of the Supply Agreement in relation to the sale and purchase of the Products were determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and no more favourable to Shanghe than those available to the Company from independent third parties. The price and terms of the Supply Agreement are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

ANNUAL CAP

The annual cap in respect of the transactions contemplated under the Supply Agreement is expected to be RMB9 million for the term of the Supply Agreement, i.e., the period from 7 January 2019 to 31 December 2019. This annual cap was determined with reference to the unit price of the Products and the expected volume of the Products to be purchased by Oushi Mengniu during the term of the Supply Agreement.

INFORMATION ON THE COMPANY, OUSHI MENGNIU AND SHANGHE

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).

Oushi Mengniu is a company established in 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.

Shanghe is a company incorporated in the PRC. It is principally engaged in, among others, breeding dairy cows and production of milk.

REASONS FOR AND BENEFITS OF THE SUPPLY AGREEMENT

The Directors are of the view that the Supply Agreement and the transactions contemplated thereunder would enable Oushi Mengniu to procure high quality raw milk from a stable source and enable the Group to strengthen the synergies between the Group and the Mengniu Group.

The Directors (including all the independent non-executive Directors) are of the view that the Supply Agreement and the transactions contemplated thereunder are conducted on arm's length basis and on normal commercial terms in the ordinary and usual course of business of the Company and that the terms of the Supply Agreement, including the annual cap therein, are fair and reasonable and the Supply Agreement and the transactions contemplated thereunder are in the interest of the Company and its shareholders as a whole.

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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 Supply Agreement 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 Supply Agreement and the transactions contemplated thereunder.

DEFINITIONS

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

“Board”	the board of directors of the Company
“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
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“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
“Modern Dairy”	China Modern Dairy Holdings Ltd., a company listed on the Main Board of the Stock Exchange (stock code: 1117). As at the date of this announcement, it is owned as to approximately 60.77% by Mengniu Dairy
“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
“PRC”	the People’s Republic of China
“Products”	raw milk under the Supply Agreement
“Shanghe”	Modern Farming (Shanghe) Co., Ltd.* (現代牧業(商河)有限公司), an indirect subsidiary of Modern Dairy
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Supply Agreement” the supply agreement dated 7 January 2019 between Oushi Mengniu and Shanghe in relation to the purchase of the Products by Oushi Mengniu from Shanghe

“%” 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 RMB and Hong Kong dollars at RMB1.00 to HK\$1.14334. The translation shall not be taken as representation that RMB or Australian dollar 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, 7 January 2019

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.