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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
PROCESSING AGREEMENT WITH JUNLEBAO**

THE PROCESSING AGREEMENT

On 28 January 2019, Yashili (Shanxi), a wholly-owned subsidiary of the Company, entered into the Processing Agreement with Junlebao, pursuant to which Yashili (Shanxi) agreed to provide processing services in respect of the whole milk powder to Junlebao from time to time during the term of the Processing Agreement.

LISTING RULES IMPLICATIONS

Mengniu Dairy, which is the parent of Mengniu International, a substantial shareholder of the Company, is a connected person of the Company. Junlebao is an indirect non-wholly owned subsidiary of Mengniu Dairy. Therefore, Junlebao is an associate of Mengniu Dairy under Rule 14A.13 of the Listing Rules and a connected person of the Company. Yashili (Shanxi) is a wholly-owned subsidiary of the Company. Therefore, the entering into of the Processing 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 Processing Agreement exceeds 0.1% but is less than 5%, the Processing 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 Processing Agreement are summarized below.

Date	28 January 2019
Parties	(1) Yashili (Shanxi) (2) Junlebao
Duration	28 January 2019 to 31 December 2019
Nature of Transaction	Yashili (Shanxi) shall provide processing services in respect of the whole milk powder to Junlebao in accordance with the prescribed quality standards as set out in the Processing Agreement.
Pricing Terms	Junlebao shall pay a processing fee to Yashili (Shanxi) for each ton of the whole milk powder processed by Yashili (Shanxi). Such processing fee shall include the cost for equipment utilisation and maintenance, cleaning and disinfection, resource utilisation, wages and service fees of employees, inspection fees, depreciation and other expenses in relation to the production and shall be determined with reference to general industry standards and rates. The processing fee is currently set at no less than RMB3,800 per ton, and may be adjusted based on amicable negotiation between Yashili (Shanxi) and Junlebao.
Payment Terms	Yashili (Shanxi) shall provide Junlebao with the invoice in respect of the total processing fee for the previous settlement period (which is 30 days) within 7 days from the end of each settlement period, and Junlebao shall pay the total processing fee for the previous settlement period in accordance with the invoice by the 30th day of each month.

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

ANNUAL CAP

The cap in respect of the transactions contemplated under the Processing Agreement is expected to be RMB15 million for the term of the Processing Agreement, i.e., the period from 28 January 2019 to 31 December 2019. This cap was determined with reference to the expected demand from Junlebao for processing services in respect of whole milk powder.

INFORMATION ON THE COMPANY, YASHILI (SHANXI) AND JUNLEBAO

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).

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.

Junlebao is a company incorporated in the PRC. It is principally engaged in the manufacturing and sale of relevant products in the four main segments: (a) infant milk powder, (b) low temperature yogurt, (c) normal temperature liquid milk, and (d) farming.

REASONS FOR AND BENEFITS OF THE PROCESSING AGREEMENT

The Directors are of the view that the Processing Agreement and the transactions contemplated thereunder would enable the Group to further improve the utilization of product capacities and generate additional revenue to the Group.

The Directors (including all the independent non-executive Directors) are of the view that the Processing 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 Processing Agreement, including the cap therein, are fair and reasonable and the Processing Agreement and the transactions contemplated thereunder are in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

Mengniu Dairy, which is the parent of Mengniu International, a substantial shareholder of the Company, is a connected person of the Company. Junlebao is an indirect non-wholly owned subsidiary of Mengniu Dairy. Therefore, Junlebao is an associate of Mengniu Dairy under Rule 14A.13 of the Listing Rules and a connected person of the Company. Yashili (Shanxi) is a wholly-owned subsidiary of the Company. Therefore, the entering into of the Processing 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 Processing Agreement exceeds 0.1% but is less than 5%, the Processing 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.

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 Processing 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 Processing 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
“Junlebao”	Shijiazhuang Junlebao Dairy Co., Ltd.* (石家莊君樂寶乳業有限公司), an indirectly non-wholly owned subsidiary of Mengniu Dairy
“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 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
“PRC”	the People’s Republic of China
“Processing Agreement”	the processing agreement dated 28 January 2019 between Yashili (Shanxi) and Junlebao in relation to processing services in respect of whole milk powder by Yashili (Shanxi) to Junlebao
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“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*

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, 28 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.