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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
SUPPLY AGREEMENT WITH MEMBERS OF DANONE**

NEW SUPPLY AGREEMENT WITH MEMBERS OF DANONE

Reference is made to the announcement of the Company dated 18 January 2019 in relation to the Previous Supply Agreement between Yashili New Zealand and the Purchasers (the “**Announcement**”). As disclosed in the Announcement, the term of the Previous Supply Agreement will expire on 31 March 2019 unless otherwise agreed by the parties in writing.

On 28 February 2019, Yashili New Zealand entered into a supply agreement with the Purchasers (the “**New Supply Agreement**”), pursuant to which Yashili New Zealand agreed to supply, and the Purchasers agreed to purchase, the Products from time to time during the term of the New Supply Agreement, subject to the approval by the independent Shareholders of the New Supply Agreement.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Danone Asia has a 25.0% shareholding interest in the Company. Each of the Purchasers is a subsidiary of Danone SA and a member of Danone. Therefore, each of the Purchasers is a connected person of the Company under the Listing Rules. Yashili New Zealand is an indirect wholly-owned subsidiary of the Company as at the date of this announcement. As such, the New 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 New Supply Agreement exceeds 5%, the New Supply Agreement is subject to reporting, annual review, announcement and the independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

GENERAL

The Company will convene an EGM during which an ordinary resolution will be proposed to the independent Shareholders to approve the New Supply Agreement and the transactions contemplated thereunder (including the annual cap). To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, other than Danone Asia, no other Shareholder will be required to abstain from voting on the resolution approving the New Supply Agreement at the EGM.

A circular containing, among others, details of the New Supply Agreement, the advice from the independent board committee of the Company and the advice from the independent financial adviser of the Company to the independent board committee and independent Shareholders of the Company, together with the notice convening the EGM, is expected to be despatched to the Shareholders on or before 14 March 2019, with the view that the EGM is expected to be held before 31 March 2019.

NEW SUPPLY AGREEMENT WITH MEMBERS OF DANONE

Reference is made to the Announcement and the Previous Supply Agreement. As disclosed in the Announcement, the term of the Previous Supply Agreement will expire on 31 March 2019 unless otherwise agreed by the parties in writing.

On 28 February 2019, Yashili New Zealand entered into the New Supply Agreement with the Purchasers, pursuant to which Yashili New Zealand agreed to supply, and the Purchasers agreed to purchase, the Products from time to time during the term of the New Supply Agreement, subject to the approval by the independent Shareholders of the New Supply Agreement.

Principal terms of the New Supply Agreement are summarized below.

Date	28 February 2019
Parties	(1) Purchasers: DAPH, Danone ELN and the Affiliates (2) Supplier: Yashili New Zealand
Duration	The New Supply Agreement shall take effect as at the Effective Date, being the date of obtaining the approval by the independent Shareholders of the New Supply Agreement and the transactions contemplated thereunder, and shall remain in force until the earlier of (i) 31 December 2019, or (ii) the date on which a new strategic cooperation supply agreement entered into between the same parties to the New Supply Agreement takes effect (in which case the new strategic cooperation supply agreement upon taking effect shall supersede the New Supply Agreement).

Products	Base powder and dairy ingredients
Volume of Products	Yashili New Zealand shall supply and the Purchasers shall purchase the Annual Baseline Volume of the Products on a pro rata basis in 2019 based on the term of the New Supply Agreement. The Purchasers may request additional demand above the Annual Baseline Volume, in which case Yashili New Zealand shall use all reasonable efforts to supply and prioritise delivery to the Purchasers.
Pricing Terms	The unit price of the Products shall be determined on a cost-plus approach, i.e. cost plus a reasonable margin, which will be no more than 15%, with reference to the applicable Incoterms and payment terms, which is consistent with market practice.
Payment Terms	Invoices shall be issued by Yashili New Zealand, in New Zealand dollars, upon each delivery of the Products, which shall be settled by the Purchasers at 90 days from the date of the invoice.

The price and terms of the New 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 less favourable to the Company than those available to the Company from independent third parties. The price and terms of the New Supply Agreement are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

HISTORICAL TRANSACTION AMOUNTS

The historical transaction amount of the transactions under the Previous Supply Agreement for the period from 18 January 2019 to 31 January 2019 is approximately RMB35.69 million (unaudited), which is less than the cap of RMB112 million for the term of the Previous Supply Agreement (being 18 January 2019 to 31 March 2019) as disclosed in the Announcement.

ANNUAL CAP

The annual cap in respect of the transactions contemplated under the New Supply Agreement is expected to be RMB580 million for the year ending 31 December 2019, which has taken into account the cap of the Previous Supply Agreement. The annual cap was determined with reference to the unit price of the Products and the expected purchase amount of the Products by the Purchasers during the year ending 31 December 2019.

INFORMATION ON THE COMPANY, YASHILI NEW ZEALAND, DAPH AND DANONE ELN

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 New Zealand is a company incorporated in New Zealand and an indirect wholly-owned subsidiary of the Company as at the date of this announcement. It is primarily engaged in the production and sale of dairy products. Reference is made to the announcement of the Company dated 14 December 2018 in relation to the proposed disposal of 49% interest in Yashili New Zealand by Yashili International Group Limited (a wholly-owned subsidiary of the Company) to DAPH. As at the date of this announcement, completion of the proposed disposal has not taken place.

DAPH is a company incorporated in Singapore and an indirect subsidiary of Danone SA. It is primarily engaged in holding activities and trading of early life nutrition related products.

Danone ELN is a company established and existing under the laws of the Netherlands and an indirect wholly-owned subsidiary of Danone SA. It is primarily engaged in trading in early life nutrition finished goods and related products and providing services to other companies within Danone.

REASONS FOR AND BENEFITS OF THE NEW SUPPLY AGREEMENT

The Directors are of the view that the New Supply Agreement would enable Yashili New Zealand to improve its utilisation rate, thereby achieving greater synergies between the Group and Danone.

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 New Supply Agreement is on an arm's length basis and on normal commercial terms in the ordinary and usual course of business of the Company, and that the New Supply Agreement and the proposed caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Danone Asia has a 25.0% shareholding interest in the Company. Each of the Purchasers is a subsidiary of Danone SA and a member of Danone. Therefore, each of the Purchasers is a connected person of the Company under the Listing Rules. Yashili New Zealand is an indirect wholly-owned subsidiary of the Company as at the date of this announcement. As such, the New 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 New Supply Agreement exceeds 5%, the New Supply Agreement is subject to reporting, annual review, announcement and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Ms. Lam Pik Po, Katty and Mr. Qin Peng are Directors nominated by Danone and therefore are considered to have a material interest in the New Supply Agreement and the transactions contemplated thereunder. As such, each of Ms. Lam Pik Po, Katty and Mr. Qin Peng abstained from voting on the board resolution approving the New Supply Agreement.

GENERAL

The Company will convene an EGM during which an ordinary resolution will be proposed to the independent Shareholders to approve the New Supply Agreement and the transactions contemplated thereunder (including the annual cap). To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, other than Danone Asia, no other Shareholder will be required to abstain from voting on the resolution approving the New Supply Agreement at the EGM.

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

An independent financial adviser will be appointed in due course in accordance with the Listing Rules to advise the independent board committee and independent Shareholders as to whether the New Supply Agreement is fair and reasonable, and whether the New Supply Agreement is on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole, and how to vote on the New Supply Agreement and the transactions contemplated thereunder.

A circular containing, among others, details of the New Supply Agreement, the advice from the independent board committee of the Company and the advice from the independent financial adviser of the Company to the independent board committee and independent Shareholders of the Company, together with the notice convening the EGM, is expected to be despatched to the Shareholders on or before 14 March 2019, with the view that the EGM is expected to be held before 31 March 2019.

DEFINITIONS

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

“Announcement”	the announcement of the Company dated 18 January 2019 in relation to the Previous Supply Agreement between Yashili New Zealand on the one hand and DAPH and Danone ELN on the other hand
“Affiliate(s)”	a company or companies of the Danone Early Life Nutrition division (a business division of Danone) that is wholly or partially owned or controlled by Danone SA
“Annual Baseline Volume”	the aggregate annual baseline volume of all Products of 10,000 metric tons per calendar year
“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
“Danone”	Danone SA and other companies directly or indirectly controlled by Danone SA
“Danone Asia”	Danone Asia Baby Nutrition Pte. Ltd., a company established and existing under the laws of Singapore and an indirect wholly-owned subsidiary of Danone SA. Danone Asia is a substantial shareholder of the Company
“Danone ELN”	Danone Trading ELN BV, a company established and existing under the laws of the Netherlands and an indirect wholly-owned subsidiary of Danone SA
“Danone”	Danone SA and its subsidiaries
“Danone SA”	Danone SA, a company incorporated under the laws of France, the ultimate controlling shareholder of Danone Asia and Danone ELN
“DAPH”	Danone Asia Pacific Holdings Pte. Ltd., a company incorporated in Singapore and an indirect subsidiary of Danone SA
“Directors”	the directors of the Company

“Effective Date”	the date upon which the New Supply Agreement takes effect pursuant to its terms, being the date of obtaining the approval by the independent Shareholders of the New Supply Agreement and the transactions contemplated thereunder (including the annual cap)
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve the New Supply Agreement and the transactions contemplated thereunder (including the annual cap)
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Supply Agreement”	the supply agreement dated 28 February 2019 between Yashili New Zealand on the one hand, and DAPH and Danone ELN on the other hand, in relation to the supply of the Products by Yashili New Zealand to the Purchasers
“PRC”	the People’s Republic of China
“Previous Supply Agreement”	the supply agreement dated 18 January 2019 between Yashili New Zealand on the one hand, and DAPH and Danone ELN on the other hand, in relation to the supply of the Products by Yashili New Zealand to the Purchasers
“Products”	base powder and dairy ingredients
“Purchasers”	DAPH, Danone ELN and the Affiliates
“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

“Yashili New Zealand”

Yashili New Zealand Dairy Co., Limited, a company incorporated in New Zealand and an indirect wholly-owned subsidiary of the Company as at the date of this announcement

%

per cent.

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 February 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.