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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
OFFTAKE AGREEMENT WITH BURRA FOODS**

Reference is made to the announcement of the Company dated 26 April 2018 in relation to the entering into of the Supply Agreement between Newou and Burra Foods, in which it was disclosed that if Newou and Burra Foods enter into a new supply agreement before 30 June 2018, such agreement shall supersede the Supply Agreement.

On 28 June 2018, Newou, a wholly-owned subsidiary of the Company, entered into the Offtake Agreement with Burra Foods, pursuant to which Newou agreed to purchase, and Burra Foods agreed to sell, Base Powder Products from time to time during the term of the Offtake Agreement. The Offtake Agreement shall supersede the Supply Agreement, and all the purchase orders still performing under the Supply Agreement shall automatically be subject to the Offtake Agreement.

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. Burra Foods is owned as to 51.35% by Fuyuan Farming, which is in turn owned as to 42.3% by Mengniu Dairy. Therefore, each of Burra Foods and Fuyuan Farming is an associate of Mengniu Dairy under Rule 14A.13(3) of the Listing Rules and a connected person of the Company. Newou is a subsidiary of the Company. Therefore, the entering into of the Offtake Agreement and the Purchase Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Offtake Agreement exceeds 0.1% but is less than 5%, the Offtake Agreement 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.

BACKGROUND

Reference is made to the announcement of the Company dated 26 April 2018 in relation to the entering into of the Supply Agreement between Newou and Burra Foods, in which it was disclosed that if Newou and Burra Foods enter into a new supply agreement before 30 June 2018, such agreement shall supersede the Supply Agreement.

OFFTAKE AGREEMENT WITH BURRA FOODS

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Principal terms of the Offtake Agreement are summarized below.

Date	28 June 2018
Parties	(1) Newou as purchaser (2) Burra Foods as supplier
Nature of Transaction	Sale and purchase of Base Powder Products. The exact types and volume of Base Powder Products purchased as well as the location and dates of delivery will be determined by mutual agreement between the parties and specified in individual purchase orders.
Duration	The Offtake Agreement shall be effective from 28 June 2018 to 31 December 2018.
Pricing Terms	The price of Base Powder Products purchased under the Offtake Agreement shall be within the range of AUD11,600/MT and AUD13,250/MT (depending on the exact type of Base Powder Products purchased), which may be subsequently adjusted from time to time pursuant to the terms of the Offtake Agreement.
Payment Terms	Payment for each delivery shall be made within 30 days of the provision of each initial and final invoice.

HISTORICAL TRANSACTION AMOUNT

During the period from 12 May 2017 to 31 December 2017, Newou has purchased Base Powder Products from Burra Foods pursuant to the Framework Purchase Agreement. The value of the transactions under the Framework Purchase Agreement was RMB16.52 million (equivalent to HK\$20.50 million). For further information about the Framework Purchase Agreement, please refer to the announcement of the Company dated 19 May 2017.

During the period from 26 April 2018 to 27 June 2018, Newou has purchased Base Powder Products from Burra Foods pursuant to the Supply Agreement. The value of the transactions under the Supply Agreement during this period was AUD3.36 million (equivalent to HK\$19.38 million). For further information about the Supply Agreement, please refer to the announcement of the Company dated 26 April 2018.

ANNUAL CAP

The annual cap in respect of the Purchase Transactions during the year ending 31 December 2018 (including the value of the transactions conducted pursuant to the Supply Agreement during the period from 26 April 2018 to 27 June 2018) shall be AUD10 million (equivalent to approximately HK\$57.68 million).

The annual cap was determined with reference to (i) the value of Base Powder Products purchased during the period from 26 April 2018 to 27 June 2018 pursuant to the Supply Agreement; (ii) the types of Base Powder Products to be purchased during the period from 28 June 2018 to 31 December 2018; (iii) the unit price of the relevant Base Powder Product to be purchased during the period from 28 June 2018 to 31 December 2018; and (iv) the volume of the expected volume of Base Powder Product to be purchased by Newou during the period from 28 June 2018 to 31 December 2018 determined based on the Group's production plan and sales forecasts.

INFORMATION ON THE COMPANY, NEWOU AND BURRA FOODS

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: (i) production and sale of infant milk formula products (including the development, manufacture and sale of infant milk formula products in the PRC and overseas); (ii) production and sale of nutrition products (including the development, manufacture and sale of milk powder for adults and teenagers, soymilk powder, rice flour and cereal products in the PRC and overseas); and (iii) other operations (mainly including the production and sale of packing materials mainly for the Group's internal use, the sale of surplus raw materials and the sale of base-powder).

Newou is a company established in Hong Kong and a wholly-owned subsidiary of the Company. It is principally engaged in the import and export of dairy products and related materials.

Burra Foods is a company incorporated in Australia. It is engaged in the processing and distribution of specialised dairy ingredients.

REASONS FOR AND BENEFITS OF THE PURCHASE TRANSACTIONS

The Directors expect that the Purchase Transactions would enable Newou to procure high quality raw materials from a stable source, which would lay a solid foundation for the Group's expansion into high end product categories.

The Directors (including the independent non-executive Directors but excluding Mr. Jeffrey, Minfang Lu and Mr. Zhang Ping) are of the view that the Offtake Agreement and the Purchase Transactions 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 Offtake Agreement, including the annual cap therein, are fair and reasonable and the Offtake Agreement and the Purchase Transactions are in the interest of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

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. Burra Foods is owned as to 51.35% by Fuyuan Farming, which is in turn owned as to 42.3% by Mengniu Dairy. Therefore, each of Burra Foods and Fuyuan Farming is an associate of Mengniu Dairy under Rule 14A.13(3) of the Listing Rules and a connected person of the Company. Newou is a subsidiary of the Company. Therefore, the entering into of the Offtake Agreement and the Purchase Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio in respect of the Offtake Agreement exceeds 0.1% but is less than 5%, the Offtake Agreement 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.

Pursuant to the Framework Supply Agreement, Newou has agreed to purchase, and Burra Foods has agreed to sell, Finished Products from time to time during the period from 20 June 2018 to 31 December 2018. As disclosed in the announcement of the Company dated 20 June 2018, the annual cap in respect of the transactions conducted under the Framework Supply Agreement for the year ending 31 December 2018 shall be AUD7 million (equivalent to approximately HK\$41 million). Accordingly, the aggregated annual cap in respect of (i) the transactions conducted under the Offtake Agreement (including the transactions conducted pursuant to the Supply Agreement during the period from 26 April 2018 to 27 June 2018) and (ii) the transactions conducted under the Framework Supply Agreement for the year ending 31 December 2018 shall be AUD17 million (equivalent to approximately HK\$98.06 million). The highest applicable percentage ratio in respect of the aggregated annual cap in respect of (i) the transactions conducted under the Offtake Agreement (including the transactions conducted pursuant to the Supply Agreement during the period from 26 April 2018 to 27 June 2018) and (ii) the transactions conducted under the Framework Supply Agreement for the year ending 31 December 2018 exceeds 0.1% but is less than 5%.

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 Offtake Agreement and the Purchase Transactions. As such, each of Mr. Jeffrey, Minfang Lu and Mr. Zhang Ping has abstained from voting on the relevant board resolutions approving the Offtake Agreement and the Purchase Transactions.

DEFINITIONS

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

“AUD”	Australian dollar, the lawful currency of Australia
“Base Powder Products”	base powder products for milk based recipes
“Burra Foods”	Burra Foods Pty Ltd, a company incorporated in Australia
“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
“Finished Products”	certain types of finished products to be purchased by Newou from Burra Foods under the Framework Supply Agreement
“Framework Purchase Agreement”	the framework purchase agreement dated 12 May 2017 between Newou and Burra Foods in respect of the purchase of Base Powder Products by Newou from Burra Foods
“Framework Supply Agreement”	the framework supply agreement dated 20 June 2018 between Newou and Burra Foods in respect of the purchase of Finished Products by Newou from Burra Foods
“Fuyuan Farming”	Inner Mongolia Fuyuan Farming Co., Ltd.* (內蒙古富源牧業有限責任公司), a company established in the PRC
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong Special Administrative Region of the PRC
“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 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
“Newou”	Newou Hong Kong International Co., Limited, a company established in Hong Kong and a wholly-owned subsidiary of the Company
“Offtake Agreement”	the offtake agreement dated 28 June 2018 between Newou and Burra Foods in respect of the purchase of Base Powder Products by Newou from Burra Foods
“PRC”	the People’s Republic of China
“Purchase Transactions”	the transactions contemplated under the Offtake Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supply Agreement”	the supply agreement dated 26 April 2018 between Newou and Burra Foods in respect of the purchase of Base Powder Products by Newou from Burra Foods
“%”	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\$1.18 and between Australian dollars to Hong Kong dollars at AUD1.00 to HK\$5.77. 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 of directors of
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 June 2018

As at the date of this announcement, the board of directors of the Company 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.