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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: 01230)**

**ANNOUNCEMENT  
CONTINUING CONNECTED TRANSACTION**

**THE TRADEMARK LICENSING AGREEMENT**

The board of directors of Yashili is pleased to announce that on September 25, 2015, Yashili (Guangdong), Oushi Mengniu and Inner Mongolia Mengniu entered into a Trademark Licensing Agreement pursuant to which Inner Mongolia Mengniu (as licensor) agreed to grant Oushi Mengniu, Yashili (Guangdong) and its affiliates (as licensees) a non-transferable and non-exclusive right to use and sub-license the Trademarks in the PRC for a term commencing from the date of the Trademark Licensing Agreement for a period of (i) 50 years, or (ii) the operation period of Oushi Mengniu, whichever is later. The Trademark Licensing Agreement may be renewed subject to the negotiations among the parties in the future.

**LISTING RULES IMPLICATIONS**

Mengniu International, a subsidiary of Mengniu Dairy, holds 51.04% of the Shares and is a substantial shareholder of Yashili. Therefore, Mengniu Dairy is a connected person of Yashili. As Inner Mongolia Mengniu is a subsidiary of Mengniu Dairy and Yashili (Guangdong) is an indirect wholly-owned subsidiary of Yashili, the transaction contemplated under the Trademark Licensing Agreement constitutes a continuing connected transaction of Yashili under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios (as defined under the Listing Rules) in respect of the annual caps for the continuing connected transactions contemplated under the Trademark Licensing Agreement will, on an annual basis, be more than 0.1% but less than 5%, such continuing connected transactions are subject to the reporting, annual review and announcement requirements and are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Reference is made to the Joint Announcement issued by Yashili and Mengniu Dairy on September 21, 2015.

## **THE TRADEMARK LICENSING AGREEMENT**

The board of directors of Yashili is pleased to announce that on September 25, 2015, as one of the conditions precedent to the Acquisition, Yashili (Guangdong), Oushi Mengniu and Inner Mongolia Mengniu entered into a Trademark Licensing Agreement pursuant to which Inner Mongolia Mengniu (as licensor) agreed to grant Oushi Mengniu, Yashili (Guangdong) and its affiliates (as licensees) a non-transferable and non-exclusive right to use and sub-license the Trademarks in the PRC for a term commencing from the date of the Trademark Licensing Agreement for a period of (i) 50 years, or (ii) the operation period of Oushi Mengniu, whichever is later. The Trademark Licensing Agreement may be renewed subject to the negotiations among the parties in the future.

### **Subject of the transaction**

Pursuant to the Trademark Licensing Agreement, Inner Mongolia Mengniu agreed to grant Oushi Mengniu, Yashili (Guangdong) and its affiliates a non-transferable and non-exclusive right to (i) use the Trademarks in the manufacturing, sale, promotion, marketing, advertising and distribution of the Products in the PRC subject to the terms and conditions thereof; and (ii) without prejudice to the license fees receivable by Inner Mongolia Mengniu and tax liabilities to be borne by Inner Mongolia Mengniu, subject to the scope of the license, sublicense the Trademarks to its subsidiaries, affiliates and those third party distributors, advertising agencies and similar entities which assist the licensees to promote, advertise and sell the Products provided that the sublicense is used for the promotion, advertising and sale of the Products in the PRC only.

### **Term**

The Trademark Licensing Agreement is entered into for a term commencing from the date of the Trademark Licensing Agreement for a period of (i) 50 years, or (ii) the operation period of Oushi Mengniu, whichever is later. The Trademark Licensing Agreement may be renewed subject to the negotiations among the parties in the future.

### **Consideration and payment**

The annual license fee is equal to (a) 3% of the net sales revenue arising from the sale of the Products by Yashili (Guangdong) and its affiliates during that respective year, and (b) (i) 3% of the net sales revenue arising from the sale of the Products by Oushi Mengniu during that respective year, or (ii) RMB18 million, whichever is higher. The net sales revenue of Oushi Mengniu shall start to accrue (i) following the completion of the registration of the capital reduction as further described in the Joint Announcement, or (ii) from January 1, 2016, whichever is earlier. The annual license fee shall be paid by Oushi Mengniu, Yashili (Guangdong) and its affiliates within two months after the end of each year.

## Basis of consideration

The above basis for calculation of the annual license fee is arrived at after arm's length negotiation between the parties with reference to the license fees charged by other licensors for similar transactions and prevailing market conditions.

## Proposed annual caps

It is expected that the aggregate license fees payable by Oushi Mengniu, Yashili (Guangdong) and its affiliates to Inner Mongolia Mengniu under the Trademark Licensing Agreement for the year ending December 31, 2015, December 31, 2016, December 31, 2017 and December 31, 2018 shall not exceed the following annual cap amounts:

	Annual caps							
	For the year ending		For the year ending		For the year ending		For the year ending	
	December 31, 2015		December 31, 2016		December 31, 2017		December 31, 2018	
	<i>HK\$'000</i>		<i>HK\$'000</i>		<i>HK\$'000</i>		<i>HK\$'000</i>	
	<i>RMB'000</i>	<i>equivalent</i>	<i>RMB'000</i>	<i>equivalent</i>	<i>RMB'000</i>	<i>equivalent</i>	<i>RMB'000</i>	<i>equivalent</i>
Trademark Licensing Fees	10,000	12,171	35,000	42,600	40,000	48,685	45,000	54,771

## Basis of proposed annual caps

The above annual caps for the Trademark Licensing Agreement are arrived at after taking into account the estimated revenue of Oushi Mengniu, Yashili (Guangdong) and its affiliates in relation to the sale of the Products.

## View from the independent financial adviser in respect of the duration of the Trademark Licensing Agreement

As the duration of the Trademark Licensing Agreement exceeds three years, pursuant to Rule 14A.52 of the Listing Rules, Yashili has engaged Somerley as the independent financial adviser to explain why the Trademark Licensing Agreement requires a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration.

In assessing the reasons why the duration of the Trademark Licensing Agreement requires a period longer than three years, Somerley has taken into consideration the information set out in this announcement, and the following principal factors based on the information provided by, and discussion with the management of Yashili:

- (i) Oushi Mengniu has been manufacturing and selling the Products using the Trademarks, and the sale of the Products of Oushi Mengniu using the Trademarks after completion of the Acquisition will be of strategic importance for the Group. From Yashili's point of view, a longer duration of the Trademark Licensing Agreement is of paramount importance for Oushi Mengniu to be able to secure a long term right to use the Trademarks for the sales of its Products to ensure stability to the continued business operations of Oushi Mengniu.

(ii) Yashili's management is of the view that the use of "Mengniu" trademark, being highly recognized trademark in China, would be beneficial to the sale of Yashili's adult milk powder products and maintain the market share of Oushi Mengniu's paediatric milk powder. Yashili could also access support from Mengniu Dairy in terms of brand resources under the Trademark Licensing Agreement.

In considering whether the duration of the Trademark Licensing Agreement is in line with normal business practice for agreements of this type, Somerley has reviewed a number of comparable agreements (the "**Comparable Agreements**") with nature similar to that of the Trademark Licensing Agreement, where (1) one of the parties (or its direct or indirect holding company) to such agreements is a company listed in Hong Kong which is principally engaged in food and beverage related businesses and has a closing market capitalisation of HK\$2 billion or above as at the date immediately prior to the date of this announcement; and (2) such Comparable Agreements are referred to in the latest annual report of the respective listed company involved. Based on information published on the website of the Stock Exchange (i.e. the latest annual report, and/or other documents published by the respective listed company on the website of the Stock Exchange where details of the duration of the Comparable Agreements are not shown in the latest annual report), Somerley notes that the duration of the Comparable Agreements have duration ranging from approximately 2.5 years to a perpetual duration. The duration of the Trademark Licensing Agreement (being for a period of (i) 50 years or (ii) as the operation period of Oushi Mengniu, whichever is later) is within the range of the duration of the Comparable Agreements.

Based on the above considerations, Somerley is of the view that a period longer than three years is required for the Trademark Licensing Agreement and that the duration of the Trademark Licensing Agreement of longer than three years is in line with the normal business practice for agreements of this type.

#### **INFORMATION ON YASHILI, YASHILI (GUANGDONG), OUSHI MENGNIU AND INNER MONGOLIA MENGNIU**

Yashili is an investment holding company, which, along with its subsidiaries, is primarily engaged in the manufacturing and selling of dairy and nourishment products. It operates in four segments in China: (i) Yashily pediatric milk formula products segment; (ii) Scient pediatric milk formula products segment; (iii) nutrition products segment and (iv) other segments, including the production and sale of packing materials and sale of surplus raw materials. Yashili is a leading player in China's paediatric milk formula industry, and also has a leading position in the soymilk powder market in China. As at the date of this announcement, approximately 51.04% of the issued share capital of Yashili is held by Mengniu International. Yashili (Guangdong) is a wholly-owned subsidiary of Yashili (HK) which is a wholly-owned subsidiary of Yashili.

Oushi Mengniu is a company incorporated in the PRC and a wholly-owned subsidiary of Inner Mongolia Mengniu. It is primarily engaged in the manufacturing and sales of pediatric milk formula products and milk powder products for adults. Pursuant to the equity transfer agreement entered into between Yashili (Guangdong) and Inner Mongolia Mengniu on September 21, 2015, Inner Mongolia Mengniu conditionally agreed to sell and Yashili (Guangdong) conditionally agreed to purchase the entire equity interests in Oushi Mengniu. Upon completion of the Acquisition, Oushi Mengniu will become an indirect wholly-owned subsidiary of Yashili.

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 ENTERING INTO THE TRADEMARK LICENSING AGREEMENT**

The Directors (including the independent non-executive Directors) are of the view that the entering into of the Trademark Licensing Agreement will benefit Yashili and its Shareholders as a whole in the following respects: (i) Yashili can benefit from the brand of Mengniu Dairy, the “Mengniu” trademark is highly recognized in the PRC and the use of “Mengniu” trademark would be beneficial to the sale of Yashili’s adult milk powder products and maintain the market share of Oushi Mengniu’s pediatric milk powder; and (ii) through the “Mengniu” trademark license, Yashili could access more support from Mengniu Dairy in terms of brand resources.

The Directors (including the independent non-executive Directors) are of the view that it is normal business practice for agreements in relation to trademarks to be of relatively long duration. Given that it is of paramount importance for Oushi Mengniu, Yashili (Guangdong) and its affiliates to be able to secure a long term right to use the Trademarks for the Products to ensure stability to the continued business operations of Oushi Mengniu and enable Yashili to benefit from the “Mengniu” trademark, therefore the term of the Trademark Licensing Agreement exceeds three years.

The Directors (including the independent non-executive Directors) are of the view that the Trademark Licensing Agreement and the term of it which is in excess of three years are on normal commercial terms, and that its terms are fair and reasonable and in the interest of Yashili and its Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

Mengniu International, a subsidiary of Mengniu Dairy, holds 51.04% of the Shares and is a substantial shareholder of Yashili. Therefore, Mengniu Dairy is a connected person of Yashili. As Inner Mongolia Mengniu is a subsidiary of Mengniu Dairy and Yashili (Guangdong) is an indirect wholly-owned subsidiary of Yashili, the transaction contemplated under the Trademark Licensing Agreement constitutes a continuing connected transaction of Yashili under Chapter 14A of the Listing Rules.

As each of the applicable percentage ratios (as defined under the Listing Rules) in respect of the annual caps for the continuing connected transactions contemplated under the Trademark Licensing Agreement will, on an annual basis, be more than 0.1% but less than 5%, such continuing connected transactions are subject to the reporting, annual review and announcement requirements and are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Ms. Sun Yiping is a director of Mengniu Dairy, Mr. Zhang Ping is the chief financial officer of Mengniu Dairy and Mr. Wu Jingshui is the vice president of Inner Mongolia Mengniu. Accordingly, Ms. Sun Yiping, Mr. Zhang Ping and Mr. Wu Jingshui are considered to have material interest in the Trademark Licensing Agreement and the transactions contemplated thereunder and have abstained from voting on the relevant board resolutions approving the Trademark Licensing Agreement and the transactions contemplated thereunder.

## **DEFINITIONS**

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

“Acquisition”	the acquisition of the entire equity interests in Oushi Mengniu by Yashili (Guangdong) from Inner Mongolia Mengniu for a consideration of RMB 1,050 million (equivalent to approximately HK\$1,278 million). Please refer to the Joint Announcement for further details
“affiliate”	in relation to any party, another entity which is in control of, controlled by or under the common control with, that party. In the context of Yashili (Guangdong) and its affiliates, such term does not include Oushi Mengniu
“connected person(s)”	has the meaning ascribed to it by the Listing Rules
“control”	(i) direct or indirect legal, beneficial or actual ownership of more than 50% of the voting rights or registered capital of an entity, or (ii) the ability to appoint or nominate the majority of the board members of an entity, or (iii) the ability to direct the management of an entity
“Director(s)”	the director(s) of Yashili
“Group”	Yashili and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People's Republic of China
“Inner Mongolia Mengniu”	Inner Mongolia Mengniu Dairy (Group) Company Limited, a subsidiary of Mengniu Dairy

“Joint Announcement”	the joint announcement issued by Yashili and Mengniu Dairy on September 21, 2015 in relation to, among others, the Acquisition
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mengniu Dairy”	China Mengniu Dairy Company Limited, a company incorporated in the Cayman Islands with limited liability with its shares 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 Yashili, holding approximately 51.04% of the issued share capital of Yashili
“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)
“percentage ratio(s)”	the percentage ratio(s) set out in Rule 14.07 of the Listing Rules to be applied for determining the classification of a transaction
“PRC” or “China”	the People’s Republic of China, not including Taiwan, Hong Kong and Macau for the purpose of this announcement
“Products”	pediatric milk formula products and milk powder products for adults for which the Trademarks are used
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the share(s) of Yashili
“Shareholder(s)”	person(s) whose name(s) appear on the register of members of the Yashili as registered holder(s) of Share(s)
“Somerley”	Somerley Capital Limited, the independent financial adviser to the Company in connection with the term of the Trademark Licensing Agreement. Somerley is a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it by the Listing Rules
“subsidiaries”	has the meaning ascribed to it by the Listing Rules

“Trademark Licensing Agreement”	the agreement dated September 25, 2015 entered into among Oushi Mengniu, Yashili (Guangdong) and Inner Mongolia Mengniu in relation to the grant of right by Inner Mongolia Mengniu to Oushi Mengniu, Yashili (Guangdong) and its affiliates to use and sub-license the Trademarks in the PRC
“Trademarks”	certain registered trademarks of Inner Mongolia Mengniu, which are subject to change by Inner Mongolia Mengniu from time to time
“Yashili”	Yashili International Holdings Ltd, a company incorporated in the Cayman Islands with limited liability with its shares listed on the Main Board of the Stock Exchange (stock code: 1230)
“Yashili (Guangdong)”	雅士利國際集團有限公司 (Yashili International Group Limited*), a company incorporated in the PRC and an indirect wholly-owned subsidiary of Yashili
“Yashili (HK)”	Yashili International Group Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of Yashili
“%”	per cent

\* *English names of the PRC entities are the literal translations of their Chinese names and are included for identification purposes only.*

\* *This announcement contains conversion between Renminbi and Hong Kong dollars at RMB0.8216 to HK\$1.00. The conversion shall not be taken as representation that the Renminbi 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  
**Sun Yiping**  
 Chairman

Hong Kong, September 25, 2015

*As at the date of this announcement, the board of directors of Yashili comprises: Ms. Sun Yiping (Chairman), Mr. Qin Peng, Mr. Zhang Ping and Mr. Wu Jingshui as non-executive directors; Mr. Jeffrey, Minfang Lu and Mr. Li Dongming as executive directors; and Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway as independent non-executive directors.*