

香港聯合交易所有限公司  
(香港交易及結算所有限公司全資附屬公司)

THE STOCK EXCHANGE OF HONG KONG LIMITED  
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

**Listed issuers that commit repeated breaches of the Listing Rules should expect appropriate regulatory action. Directors should take active steps to avoid repeated Listing Rule breaches in relation to the same subject matter.**

**A listed issuer and its directors must maintain adequate and effective internal controls to ensure compliance with the Listing Rules, including appropriate measures to identify connected persons and connected transactions, manage and monitor the reporting of connected transactions at the subsidiary level. Listed issuers should provide clear guidance, training and/or written procedural manuals to staff members who are charged with the responsibility of reporting connected transactions.**

**The Listing Committee of The Stock Exchange of Hong Kong Limited (the “Listing Committee”)**

#### **CRITICISES:**

**Yashili International Holdings Limited** (the “**Company**” (Stock Code: 1230), together with its subsidiaries, the “**Group**”) for breaching Rules 14A.35 and 14A.36 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) for failing to comply with the announcement and independent shareholders’ approval requirements for certain connected and continuing connected transactions identified below.

For the avoidance of doubt, the Exchange confirms that the sanction and directions in this news release apply only to the Company.

#### **SETTLEMENT**

As a consequence of settlement, the Company admits its breaches of the Listing Rules as described above, and accepts the sanctions and directions imposed on it by the Listing Committee as set out below.

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## FACTS

The Company had received two caution letters in 2014 and 2017 (the “**2014 Caution**” and the “**2017 Caution**” respectively) in relation to delays in announcing connected transactions under Chapter 14A of the Listing Rules.

The Company failed to comply with the similar requirements in Chapter 14A of the Listing Rules again in respect of seven connected transactions (the “**Transactions**”) conducted between 1 January and 22 August 2017.

Four of the Transactions (the “**Batch A Transactions**”) were announced over six to eight months after their respective terms have been agreed. One of the Batch A Transactions (the “**Agency CT**”), if aggregated with the other three Transactions (the “**Batch B Transactions**”) under Rules 14A.81 and 14A.82, should have required independent shareholder approval under Rule 14A.36.

## LISTING RULE REQUIREMENTS

The Transactions were subject to the following requirements of the Listing Rules:

- (a) Rule 14A.35 provides that a listed issuer must announce a connected transaction / continuing connected transaction (“**CT/CCT**”) as soon as practicable after its terms have been agreed.
- (b) Rule 14A.36 provides that a CT/CCT must be conditional upon independent shareholders’ approval.
- (c) Rules 14A.81 and 14A.82 state that the Exchange will aggregate a series of CT/CCTs as one transaction, and set out the factors to be considered in exercising the aggregation power.
- (d) According to the FAQ Series 20 – No.11 (the “**FAQ**”) issued by the Listing Department (the “**Department**”), if the relevant transactions are entered into by the issuer with the same connected person and are of a similar nature, they should be aggregated.

## LISTING COMMITTEE’S FINDINGS OF BREACH

The Listing Committee considered the written and oral submissions of the Department and the Company, and concluded as follows:

**Company's breaches**

The Listing Committee:

- (a) noted that the Company admitted that it had breached Rule 14A.35 in relation to the Batch A Transactions, and Rule 14A.36 in respect of the Agency CT and the Batch B Transactions; and
- (b) found that the Company did breach these Rules by failing to comply with the announcement and the independent shareholder approval requirements.

The Listing Committee concluded that the Agency CT should be aggregated with the Batch B Transactions under Rules 14A.81 and 14A.82 and with reference to the FAQ because:

- (a) the relevant agreements were entered into within a 12-month period;
- (b) those agreements all concerned purchase of the same type of products by the Company subsidiaries from counterparties which are connected with one another; and
- (c) the transaction model and the nature of goods under the agreements are similar. The Batch B Transactions were all framework purchase agreements with the same group of connected persons. Although the Agency CT was described as a procurement agency agreement and the products were ultimately sourced from an independent party, the Company settled the gross purchase price directly with the agent (which was within the same group of connected persons) rather than merely paying an agency fee to the agent. The Agency CT was therefore in substance a purchase agreement with the same group of connected persons.

The Listing Committee noted that there is no evidence suggesting that (i) the Company intentionally or wilfully concealed the Transactions; (ii) the Transactions were not on normal, commercial and arms-length terms; and (iii) there were benefits conferred on any member of its board under the Transactions.

**Internal control deficiencies**

The Listing Committee also found that the Company did not have adequate internal controls with respect to compliance with Chapter 14A of the Listing Rules which led to the Company's breaches set out above:

- (a) Notwithstanding its corporate expansion since 2014, and the previous Listing Rule non-compliance leading to the 2014 Caution and the 2017 Caution, the Company had failed to implement and maintain a clear and well established system during the material time for identifying connected persons for the purposes of compliance with Chapter 14A of the Listing Rules.

- (b) The Company did not maintain, until May 2017, a list of connected persons to the Company for the responsible personnel's reference, by which connected transactions would be identified and escalated to its board of directors for Listing Rule compliance consideration.
- (c) The Company's system in place during the material time was inadequate to:
  - (i) monitor and identify CT/CCTs which were potentially subject to aggregation under Rules 14A.81 and 14A.82;
  - (ii) determine if the Transactions gave rise to any Listing Rule implications;
  - (iii) if necessary, escalate to its board and/or senior management for consideration; and
  - (iv) consult the Exchange under Rule 14A.84 or its professional advisers.
- (d) There was no system during the material time to equip staff charged with the reporting responsibility with relevant knowledge on Listing Rule compliance. No training on compliance with the connected transaction requirements or other related guidance and manual was given to the relevant personnel until the non-compliance with the Listing Rules in respect of the Batch A Transactions was discovered in August 2017.
- (e) At the Company level, the system in place during the material time was inadequate to monitor compliance with the reporting obligations of its subsidiaries. The previous Listing Rule non-compliance giving rise to the 2014 Caution, the 2017 Caution and the Batch A Transactions were only discovered during the preparation of the relevant interim or annual results.

## **REGULATORY CONCERN**

The Listing Committee regards the breaches in this matter as serious:

- (1) The nature and causes of the Listing Rule non-compliances leading to the 2014 Caution and the 2017 Caution are similar to the subject matters of this case.
- (2) However, the Company's failure to comply with the Listing Rules in respect of the Transactions and the causes of the failure suggests that the Company had not fully appreciated the importance of complying with the Chapter 14A requirements and maintaining an effective internal controls system for Listing Rule compliance after receiving the 2014 Caution.
- (3) There were deficiencies in the Company's then internal controls for procuring the Company's compliance with Chapter 14A requirements as identified above, which led to the Company's breaches.

- (4) The interest of the Company's shareholders had been prejudiced in terms of their right to timely receipt of information concerning the Transactions, and vote on those requiring their approval before they were carried out.
- (5) The failure to comply with Chapter 14A destroys transparency, trust and confidence in the market.

## **SANCTIONS**

Having made the findings of breaches stated above, the Listing Committee decided to:

- (1) Criticise the Company for its breaches of Rules 14A.35 and 14A.36.

The Listing Committee further directs:

- (2) The Company to retain an independent professional adviser satisfactory to the Department (the "**Adviser**") to conduct a thorough review of and make recommendations to improve the Company's internal controls to ensure compliance with Chapter 14A of the Listing Rules, within four weeks from the date of publication of this news release; and provide the Department with the written report of the Adviser containing such recommendations within two months from the publication of this press release. The Company is to submit the proposed scope of retainer to the Department for comment before appointment of the Adviser.
- (3) The Company to furnish the Department with the Adviser's written report on the Company's full implementation of the Adviser's recommendations within a further period of two months.
- (4) The Company to procure the relevant directors of the Company during the time of the Company's breaches (other than former directors of the Company) to each (a) attend 24 hours of training on Listing Rule compliance and directors' duties, including at least 4 hours of training on the requirements under the Listing Rules in respect of notifiable and connected transactions (the "**Training**"), to be provided by institutions such as the Hong Kong Institute of Chartered Secretaries, the Hong Kong Institute of Directors or other course providers approved by the Department. Such Training is to be completed within 90 days from the publication of this news release; and (b) provide the Department with the training provider's written certification of full compliance, within two weeks after training completion.
- (5) The Company to provide such assistance as the former directors of the Company referred to in (4) above may require to attend the Training as a pre-requisite of their future appointment as a director of any company listed on the Exchange, to be completed before the effective date of any such appointment.

- (6) The Company to provide 4 hours of training to its key reporting staff members on the requirements under the Listing Rules in respect of notifiable and connected transactions, subject to the same requirements set out in (4) above.
- (7) The Company to publish an announcement to confirm that each of the directions in paragraphs (2) to (4) and (6) above has been fully complied with within two weeks after the fulfillment of each direction.
- (8) The Company to submit a draft announcement referred to in (7) above for the Department's comment and may only publish the announcement after the Department has confirmed it has no further comment on it.
- (9) Following the publication of this news release, any changes necessary and any administrative matters which may emerge in the management and operation of any of the directions set out in paragraphs (2) to (8) above are to be directed to the Department for consideration and approval. The Department should refer any matters of concern to the Listing Committee for determination.

Hong Kong, 27 September 2019