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優然牧業
YOURAN DAIRY

China Youran Dairy Group Limited

中國優然牧業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 9858)

CONTINUING CONNECTED TRANSACTIONS FINANCIAL SERVICES FRAMEWORK AGREEMENT

FINANCIAL SERVICES FRAMEWORK AGREEMENT

The Board announces that on September 28, 2021, the Company entered into the Financial Services Framework Agreement with Yili Finance Company, pursuant to which Yili Finance Company agreed to provide a range of financial services to the Group, including the Deposit Services, the Settlement Services, and the Other Financial Services, for a term commencing from September 28, 2021 to December 31, 2023.

LISTING RULES IMPLICATIONS

As Yili is a controlling Shareholder, Yili and its associates are connected persons of the Company under the Listing Rules. As Yili Finance Company is a subsidiary of Yili, Yili Finance Company is an associate of Yili and accordingly a connected person of the Company under the Listing Rules. Therefore, the transactions contemplated under the Financial Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

In respect of the Deposit Services, as the highest applicable percentage ratio is more than 0.1% but less than 5%, the provision of the Deposit Services by Yili Finance Company to the Group under the Financial Services Framework Agreement is subject to the reporting, annual review and announcement requirements, but exempt from the independent Shareholders' approval requirement, under Chapter 14A of the Listing Rules.

The Settlement Services and the Other Financial Services to be provided by Yili Finance Company to the Group under the Financial Services Framework Agreement will be carried out on normal commercial terms or better and the aggregate annual fees to be paid by the Group to Yili Finance Company for the period ending December 31, 2021 and each of the two years ending December 31, 2022 and 2023 are expected to fall below the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules. Accordingly, such transactions are fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under the Listing Rules.

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The principal terms of the Financial Services Framework Agreement are set out as follows:

Date

September 28, 2021

Parties

- (i) the Company; and
- (ii) Yili Finance Company.

Term

Unless terminated earlier in accordance with the terms of the Financial Services Framework Agreement, the Financial Services Framework Agreement shall be effective from September 28, 2021 to December 31, 2023.

Scope of services

Yili Finance Company shall provide the following financial services to the Group:

- (i) deposit services, under which Yili Finance Company shall accept deposits from the Group of up to a maximum daily balance of deposits (including the interest accrued thereon) not exceeding RMB750 million (the “**Deposit Services**”);
- (ii) settlement services, including collection, payment or internal settlement services and other settlement services approved by the CBIRC (the “**Settlement Services**”); and
- (iii) other financial services, including financial and financing consulting services, credit certification and related consulting and agency services, and other services approved by the CBIRC (the “**Other Financial Services**”).

Pricing guidelines

The interest rates payable by Yili Finance Company and fees payable by the Group under the Financial Services Framework Agreement shall be determined according to the following guidelines:

- (i) the interest rates payable by Yili Finance Company to the Group for the Deposit Services shall not be lower than (a) the benchmark deposit rates prescribed by the PBOC; and (b) deposit rates payable by the major commercial banks in the PRC;
- (ii) Yili Finance Company will provide the Settlement Services for a fee which shall not be higher than the fees publicly quoted by the major commercial banks in the PRC for the same type of services; and
- (iii) Yili Finance Company will provide the Other Financial Services at a fee equal to the lower of (i) the fees publicly quoted by the major commercial banks in the PRC for the same type of services; and (ii) the pricing standard prescribed by the PBOC, the CBIRC or other applicable regulatory authorities for the same type of services.

Historical amounts

Before entering into the Financial Services Framework Agreement, the Group did not conduct any transactions with Yili or Yili Finance Company in respect of any Deposit Services, Settlement Services or Other Financial Services.

Proposed annual cap and basis of determination

The maximum daily balance of deposits (including the interest accrued thereon) under the Deposit Services for the period from September 28, 2021 to December 31, 2023 shall not exceed RMB750 million.

In arriving at the maximum daily balance of deposits (including the interest accrued thereon) under the Deposit Services for the period from September 28, 2021 to December 31, 2023, the Directors considered the following:

- (i) the latest cash and current assets position of the Group;
- (ii) the increasing asset and operation scale and the expected amount of cash of the Group available for deposit; and
- (iii) the expected amount of interest income from Yili Finance Company taking into account the interest income that could otherwise be obtained by placing a comparable amount of deposits with other major commercial banks in the PRC.

INTERNAL CONTROL MEASURES

The Company has adopted the following measures with respect to the transactions contemplated under the Financial Services Framework Agreement in order to further safeguard the interests of the Shareholders:

- (i) the Group would obtain quotations from the major commercial banks in the PRC for the same type of services it will request from Yili Finance Company before it conducts business with Yili Finance Company and compare the deposit rates and/or service fees with those quoted from Yili Finance Company to ensure that the most favorable terms are obtained. In addition, the transactions will be reported to and approved by the head of the finance department of the Company;
- (ii) the Group has established a finance department, which operates without influence from Yili and Yili Finance Company. The Group has adopted a financial management system to guide and monitor its financial activities. The Group also maintains accounts with external independent banks, and does not share any bank accounts with Yili or Yili Finance Company. Yili and Yili Finance Company cannot control the use of any of the Group's bank accounts. The Group has an independent tax registration and has paid tax independently pursuant to applicable PRC laws and regulations;
- (iii) the Company's independent non-executive Directors will independently scrutinize the implementation and enforcement of the transactions conducted under the Financial Services Framework Agreement. If a majority of the independent non-executive Directors reasonably consider that it would be in the Company's interests to reduce the level of financial services with Yili Finance Company, the Company will take appropriate steps to implement the decision of the independent non-executive Directors. Information on the transactions conducted under the Financial Services Framework Agreement and the views of the independent non-executive Directors on the transactions conducted under the Financial Services Framework Agreement will be disclosed in the annual report(s) of the Company;
- (iv) during its annual audit, the Company will engage its auditors to review the connected transactions between the Group and Yili Finance Company to ensure that the transactions under the Financial Services Framework Agreement have been approved by the Board and conducted in accordance with the pricing policies, the terms of such agreement and the caps thereunder; and
- (v) the Company will monitor the continuing connected transactions in accordance with its internal control procedures, in particular to ensure that the Company will monitor the Group's daily balances with Yili Finance Company in a timely manner. The Group's responsible financial person shall check the balances on a daily basis, and promptly report to the Company's chief financial officer or the Board if such daily balances are close to exceeding, or likely to exceed the proposed caps.

REASONS FOR AND BENEFITS OF ENTERING INTO THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

1. The rates on deposits to be offered by Yili Finance Company to the Group under the Deposit Services will be similar to or more favorable than those offered by the major commercial banks in the PRC.
2. The fees for the Settlement Services and Other Financial Services to be provided by Yili Finance Company will not be higher than the fees publicly quoted by the major commercial banks in the PRC for the same type of services.
3. Yili Finance Company is regulated by the PBOC and the CBIRC, and provides its services in accordance with the rules and operational requirements of these regulatory authorities.
4. By depositing majority of the cash that is temporarily not in use by the Group, the Group can earn a higher interest income and thereby maximize the interest income received by the Group and maximize the Shareholders' value at the same time.
5. The Group is expected to benefit from Yili Finance Company's better understanding of the operation of the Group, which will facilitate more expedient and efficient services than those rendered by the major commercial banks in the PRC.
6. By entering into the Financial Services Framework Agreement with Yili Finance Company, the Group will be able to centralize its control and management over its financial resources, therefore improve the utilization and efficiency of fund usage and mitigate its operating risks. It can also accelerate the turnover of funds and reduce transaction costs and expenses, thereby further enhancing the amount and efficiency of funds utilization. Meanwhile, the financial services to be provided under the Financial Services Framework Agreement are diversified and can meet the business needs of the Group.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the Financial Services Framework Agreement is entered into on normal commercial terms that are fair and reasonable, and the transactions contemplated thereunder are on terms no less favorable than those available from independent third parties under the prevailing local market conditions, in the ordinary and usual course of business of the Company, and in the interests of the Company and the Shareholders as a whole.

Both Mr. Zhang Yujun (a non-executive Director and the Chairman), who is an assistant to the president of Yili and a president of the liquid milk division of Yili, and Mr. Xu Jun (a non-executive Director), who is an assistant to the president of Yili, are deemed to have a material interest in the transactions contemplated under the Financial Services Framework Agreement. Therefore, Mr. Xu Jun abstained from voting on the Board resolution in relation to the Financial Services Framework Agreement. Mr. Zhang Yujun was not present in the Board meeting held for consideration and approval of the Board resolution in relation to the Financial Services Framework Agreement and therefore did not vote on the relevant Board resolution. Save as disclosed above, none of the Directors had a material interest in the transactions contemplated under the Financial Services Framework Agreement or was required to abstain from voting on the Board resolution in relation to the Financial Services Framework Agreement.

INFORMATION ABOUT THE PARTIES

The Company and the Group

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its Shares have been listed on the Main Board of the Stock Exchange (stock code: 9858) since June 18, 2021. The Group is primarily engaged in the production and sale of raw milk, and the trading, production and sale of feeds, ruminant farming products and breeding products in the PRC.

Yili and Yili Finance Company

Yili is a company established under the laws of the PRC in June 1993 whose shares are listed on the Shanghai Stock Exchange (stock code: 600887), and one of the Company's controlling Shareholders and major customers. Yili is principally engaged in the processing, manufacturing and sales of various dairy products and health drinks in the PRC.

Yili Finance Company is a company established under the laws of the PRC on 15 January 2014 and is a non-bank financial institution approved by the CBIRC. It is a wholly-owned subsidiary of Yili and principally engaged in the provision of financial services in the PRC.

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DEFINITIONS

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CBIRC”	The China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“China”, or “the PRC”	the People’s Republic of China which, for the purposes of this announcement only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Company”	China Youran Dairy Group Limited (中國優然牧業集團有限公司), an exempted company with limited liability incorporated in the Cayman Islands on August 21, 2020, whose Shares are listed on the Main Board of the Stock Exchange (stock code: 9858)
“connected person”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Financial Services Framework Agreement”	the financial services framework agreement entered into between Yili Finance Company and the Company on September 28, 2021 in respect of the provision of a range of financial services by Yili Finance Company to the Group
“Group”	the Company, its subsidiaries and its associates
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“percentage ratio(s)”	has the meaning ascribed to it under the Listing Rules
“PBOC”	People’s Bank of China (中國人民銀行)
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of par value US\$0.00001 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it in the Listing Rules
“US\$”	U.S. dollars, the lawful currency of the United States of America

“Yili”	Inner Mongolia Yili Industrial Group Co., Ltd. (內蒙古伊利實業集團股份有限公司), a company established under the laws of the PRC in June 1993 whose shares are listed on the Shanghai Stock Exchange (stock code: 600887), and one of the Company’s controlling Shareholders
“Yili Finance Company”	Yili Finance Company Limited* (伊利財務有限公司), a company established under the laws of the PRC and a wholly-owned subsidiary of Yili
“%”	per cent

By order of the Board
China Youran Dairy Group Limited
Zhang Yujun
Chairman and Non-executive Director

Hong Kong, September 28, 2021

As at the date of this announcement, the executive Directors are Mr. Zhang Xiaodong and Mr. Dong Jiping, the non-executive Directors are Mr. Zhang Yujun, Mr. Xu Jun, Mr. Xu, Zhan Kevin and Mr. Qiu Zhongwei, and the independent non-executive Directors are Ms. Xie Xiaoyan, Mr. Yao Feng and Mr. Shen Jianzhong.

* *The English translation of entity or enterprise names in Chinese is for identification purposes only. If there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail.*