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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)

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF APPROXIMATELY 27.16% OF
THE TOTAL ISSUED SHARE CAPITAL OF THE TARGET COMPANY**

**Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholders**



RAINBOW CAPITAL (HK) LIMITED
流博資本有限公司

THE SHARE TRANSFER AGREEMENT

The Board is pleased to announce that on March 2, 2022, the Company, the Seller and the Controller entered into the Share Transfer Agreement, pursuant to which the Company conditionally agreed to purchase, and the Seller conditionally agreed to sell, the Transfer Shares at the Consideration.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Share Transfer is more than 5% but all are less than 25%, the Share Transfer constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements thereunder.

As at the date of this announcement, Yili, through Jingang, (i) holds approximately 72.84% of the authorized issued and outstanding shares in the Target Company; and (ii) is a controlling shareholder of the Company. Therefore, the Share Transfer constitutes a connected transaction of the Company in accordance with Rule 14A.28 of the Listing Rules. Accordingly the Share Transfer is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board is pleased to announce that on March 2, 2022, the Company, the Seller and the Controller entered into the Share Transfer Agreement, pursuant to which the Company conditionally agreed to purchase, and the Seller conditionally agreed to sell, the Transfer Shares at a consideration of HK\$1,206,380,000 (the “**Consideration**”).

THE SHARE TRANSFER AGREEMENT

The principal terms of the Share Transfer Agreement are as follows:

Date: March 2, 2022

Parties: (i) the Company;
(ii) the Seller; and
(iii) the Controller.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Seller and the Controller (being the ultimate beneficial owner of the Seller) are Independent Third Parties.

Subject matter

Pursuant to the Share Transfer Agreement, the Company conditionally agreed to purchase, and the Seller conditionally agreed to sell, the Transfer Shares, free and clear of any and all encumbrances, at the Consideration.

Consideration

The Consideration was determined after arm’s length negotiations between the Company, the Seller and the Controller taking into account (a) the value of the assets and business of the Target Company determined by using the market approach; (b) the business development and future prospects of the Target Company; and (c) the factors set out in the section headed “Reasons for and Benefits of the Share Transfer” in this announcement.

In respect of (a) above, the Company did not engage any valuer to perform an independent valuation on the Target Company or Zhongdi. The value of the assets and business of the Target Company was assessed by the Company internally based on available information in addition to the Company’s understanding of Zhongdi and the dairy industry and other market players in the PRC. As the Company is engaged in a similar industry as Zhongdi, it has an in depth understanding of the business of Zhongdi and the dairy farming industry in the PRC and therefore has the knowledge and expertise to evaluate the assets and business of the Target Company.

Payment of Consideration

The Consideration shall be paid by the Company to the Seller in cash in the following installments:

- (a) HK\$430,000,000 shall be paid at the Closing; and
- (b) HK\$776,380,000 shall be paid within six months after the Closing or as otherwise agreed by the Parties.

The Company intends to finance the Share Transfer by a combination of internal resources and loans obtained/to be obtained by the Company from commercial banks in Hong Kong. As at the date of this announcement, the Company is discussing with a bank (the “**Bank**”) for an uncommitted loan facility of up to US\$50,000,000 with a maximum tenor of one year. The interest rate on the aforementioned loan facility is expected to be the Bank’s HIBOR/EURIBOR/cost of financing/Daily Rate (as applicable), plus margin at a rate to be agreed between the parties, and the guarantor of such loan facility is expected to be Youran Dairy. As at the date of this announcement, the Company is also discussing with another bank for a loan facility of up to US\$90,000,000 with a maximum tenor of 364 days. The interest rate on the aforementioned loan facility is still being determined and the guarantor of such loan facility is also expected to be Youran Dairy. The remaining of the Consideration will be financed by the Company’s internal resources.

Conditions to the Closing

The obligations of the Closing, unless otherwise waived in writing by the Company, are subject to the fulfilment of each the following conditions on or before the Closing:

- (a) the representations and warranties given by the Seller and the Controller in the Share Transfer Agreement being true and correct as of the date of the Share Transfer Agreement and as of the Closing Date;
- (b) each of the Seller and the Controller shall have performed and complied with all agreements, obligations and conditions contained in the Share Transfer Agreement that are required to be performed or complied with by it/him on or before the Closing;
- (c) the Seller and the Controller shall have delivered the deliverables set forth in the Share Transfer Agreement;
- (d) the passing of the relevant resolutions by way of poll at the Company’s extraordinary general meeting by its Shareholders who are entitled to vote and who are not required to abstain from voting under any applicable laws, rules and regulations for approving the Share Transfer Agreement and the transactions contemplated thereunder;

- (e) the Parties shall have obtained any and all necessary governmental authorizations, approvals, consents or permits, which includes (in each case, if applicable) filings with the Ministry of Commerce of the PRC, the National Development and Reform Commission of the PRC and the State Administration of Foreign Exchange of the PRC or their respective local counterparts for overseas investment; and
- (f) the Company shall have received a copy of the updated register of members of the Target Company that reflects the transfer of the Transfer Shares from the Seller to the Company, certified as a true and correct copy by the registered office of the Target Company.

None of the conditions above is waivable by the Company and/or the Seller. As at the date of this announcement, none of the conditions precedent has been satisfied.

Closing

The Closing shall take place as soon as practicable, but in any event within seven Business Days after the satisfaction or waiver of each condition to the Closing (other than conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions) or at such other time as the Parties shall agree. Based on information currently available to the Company, the Company expects that the Closing may take place in March 2022.

Upon the Closing, the Target Company shall become an associate company of the Company and the financial results of the Target Group will be accounted for by using the equity method in the consolidated financial statements of the Company.

Termination

The Share Transfer Agreement may be terminated by (i) mutual written consent of the Seller, Controller and the Company; (ii) either the Controller or the Company if the Closing shall not have occurred on or before the Long Stop Date; or (iii) the non-breaching party in the event of any material breach or violation of any representation or warranty, covenant or agreement of the breaching party contained in the Share Transfer Agreement that is not cured or curable within ten Business Days of written notice.

INFORMATION ABOUT THE PARTIES

Information on 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.

Information on the Seller and the Controller

The Seller was incorporated in the Cayman Islands as an exempted company with limited liability and is an investment holding company. It is wholly and beneficially owned by the Controller. As at the date of this announcement, the Seller holds approximately 27.16% of the authorized issued and outstanding shares of the Target Company.

The Controller is a businessman and a PRC citizen. The Controller is an Independent Third Party and does not have any relationship with the Company and the Group.

Information on the Target Company and its subsidiaries

The Target Company was incorporated in the Cayman Islands on August 28, 2020 as an exempted company with limited liability. The Target Company was a special purpose vehicle set up by Jingang for the privatization of Zhongdi and has no business other than holding the shares of Zhongdi. The Target Company privatized Zhongdi by way of a mandatory general offer and acquired all the shares of Zhongdi (other than those then already owned by the Target Company) at a price of HK\$1.132 per share.

Zhongdi was incorporated in the Cayman Islands as an exempted company with limited liability and is primarily engaged in dairy farming and production and sales of raw milk and other dairy products in the PRC. As at the date of this announcement, it is a wholly-owned subsidiary of the Target Company. Zhongdi's shares were listed on the Stock Exchange until June 28, 2021, when Zhongdi was privatized by the Target Company through a mandatory general offer.

Financial information of Zhongdi

Set out below is the financial information of Zhongdi for the two financial years ended December 31, 2020 and 2021 based on (i) its unaudited management accounts prepared in accordance with PRC GAAP and (ii) its audited financial statements prepared in accordance with IFRS:

	For the year ended December 31,	
	2021	2020
	RMB'000	RMB'000
	(unaudited on PRC GAAP basis)	(audited on IFRS basis)
Revenue	2,433,746	1,927,230
Profit before taxation	133,798	232,702
Profit after taxation	133,686	232,702

Note: Zhongdi's financial information for the year ended December 31, 2021 was based on its unaudited management accounts prepared in accordance with PRC GAAP, instead of IFRS, as it has ceased to prepare financial statements in accordance with IFRS after its privatization and delisting from the Stock Exchange in June 2021.

The net asset value of Zhongdi as at December 31, 2021 was approximately RMB2,672.1 million pursuant to its unaudited management accounts prepared in accordance with PRC GAAP.

REASONS FOR AND BENEFITS OF THE SHARE TRANSFER

The Company is a leader in China's upstream dairy market with an all-round business extending from breeding, feed to raw milk production. One of the Group's future plans and strategies is to continue to scale its business, thereby reinforcing its market leadership.

Zhongdi currently operates a total of nine dairy farms in China with approximately 75,000 dairy cows in China. The Share Transfer would enable the Group to invest in additional dairy farms and to explore potential collaboration opportunities in the future, which will be favorable for the Group's long-term development.

Having considered the above factors, the Directors (other than the independent non-executive Directors who will form their view after considering the advice from the Independent Financial Adviser) are of the view that the Share Transfer provides a good opportunity for the Group to invest in quality dairy farm assets and is in line with the strategic development of the Group and that the terms of the Share Transfer are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Given that the Seller and the Controller are willing to sell the Target Company at fair and reasonable terms, the Company considers that it is commercially reasonable to capture this valuable opportunity to continue to strategically expand its business size. The Company currently has no intention to acquire further interest in the Target Company in the short term. Subject to discussions and negotiations between the Parties, the Company currently expects that it may consider acquiring further interest in the Target Company with a view to consolidate the Target Company in the next one to two years. As at the date of this announcement, no concrete plan has been reached as to the terms or timing of such acquisition of further interest in the Target Company.

The Company also has no current intention to acquire new business, or downsize or dispose of its original business.

LISTING RULES IMPLICATIONS

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As at the date of this announcement, Yili, through Jingang, (i) holds approximately 72.84% of the authorized issued and outstanding shares in the Target Company; and (ii) is a controlling shareholder of the Company. Therefore, the Share Transfer constitutes a connected transaction of the Company in accordance with Rule 14A.28 of the Listing Rules. Accordingly, the Share Transfer is subject to the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

An Independent Board Committee, comprising all the independent non-executive Directors, namely, Ms. Xie Xiaoyan, Mr. Yao Feng, Mr. Shen Jianzhong, has been formed to consider, and to advise the Independent Shareholders, among other things, whether the Share Transfer is in the ordinary and usual course of business of the Company, fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole. Rainbow Capital has been appointed as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders on the terms of the Share Transfer Agreement and the transactions contemplated thereunder.

The EGM will be held to consider and, if thought fit, passing the ordinary resolution to approve, among other matters, the Share Transfer Agreement and the transactions contemplated thereunder.

A circular containing, among other things, (i) further information on the Share Transfer; (ii) a letter from the Independent Board Committee containing its opinion and recommendations to the Independent Shareholders in respect of the Share Transfer; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM, is expected to be despatched to the Shareholders within 15 business days after the date of this announcement.

DEFINITIONS

“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	any day that is not a Saturday, Sunday, legal holiday or other day on which commercial banks are required or authorized by law to be closed in Hong Kong and PRC
“Closing”	closing of the purchase and sale of the Transfer Shares
“Closing Date”	the date on which Closing occurs in accordance with the Share Transfer Agreement
“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
“connected person(s)”	has the meanings ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meanings ascribed to it under the Listing Rules
“Controller”	Mr. Zhang Jianshe, the sole shareholder of the Seller

“Daily Rate”	Secured Overnight Financing Rate or if Secured Overnight Financing Rate is not available, Secured Overnight Financing Rate Central Bank Rate
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Share Transfer Agreement and the transactions contemplated thereunder
“EURIBOR”	Euro Interbank Offered Rate
“Group”	the Company and its subsidiaries
“HIBOR”	Hong Kong Interbank Offered Rate
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IFRS”	International Financial Reporting Standards promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards and interpretations
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Ms. Xie Xiaoyan, Mr. Yao Feng, Mr. Shen Jianzhong, which has been formed to advise the Independent Shareholders on the Share Transfer Agreement and the transactions contemplated thereunder
“Independent Financial Adviser” or “Rainbow Capital”	Rainbow Capital (HK) Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the Share Transfer Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders who have no material interest in, and are not required to abstain from voting at the EGM to approve, the Share Transfer Agreement and the transactions contemplated thereunder

“Independent Third Party(ies)”	independent third party(ies) who is/are not connected person(s) (as defined in the Listing Rules) of the Company and is/are independent of the Company and the connected person(s) of the Company (as defined under the Listing Rules)
“Jingang”	Hongkong Jingang Trade Holding Co., Limited, a company incorporated in Hong Kong with limited liability on January 17, 2011 and a wholly-owned subsidiary of Yili
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	six calendar months following the date of the Share Transfer Agreement (as may be extended by the mutual consents of the Seller, the Controller and the Company)
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macao Special Administrative Region and Taiwan
“PRC GAAP”	generally accepted accounting principles in the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Seller”	YeGu Investment Company Limited, an exempted company with limited liability incorporated in the Cayman Islands
“Share Transfer Agreement”	the share transfer agreement dated March 2, 2022 entered into between the Company, the Seller and the Controller in relation to the Share Transfer
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of par value US\$0.00001 each in the issued share capital of the Company
“Share Transfer”	the proposed transfer of the Transfer Shares pursuant to the terms and conditions of the Share Transfer Agreement
“Shareholder(s)”	holders of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Target Company”	Wholesome Harvest Limited, an exempted company incorporated in the Cayman Islands, which is owned as to approximately 27.16% by the Seller and approximately 72.84% by Jingang
“Target Group”	Target Company and Zhongdi and the companies in which they hold interests
“Transfer Shares”	707,878,000 ordinary shares of the Target Company, representing approximately 27.16% of the authorized issued and outstanding shares of the Target Company
“US\$”	United States dollars, the lawful currency of the United States
“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 and whose shares are listed on the Shanghai Stock Exchange (stock code: 600887), and one of the Company’s controlling shareholders
“Youran Dairy”	Inner Mongolia Youran Dairy Co., Ltd. (內蒙古優然牧業有限責任公司), a company established under the laws of the PRC on August 1, 2007 and a subsidiary of the Company
“Zhongdi”	China ZhongDi Dairy Holdings Company Limited, an exempted company with limited liability incorporated in the Cayman Islands and a wholly-owned subsidiary of the Target Company
“%”	per cent.

By order of the Board
China Youran Dairy Group Limited
Zhang Xiaodong
Executive Director and President

Hong Kong, March 2, 2022

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.