

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

REVISION OF ANNUAL CAPS OF EXISTING CONTINUING CONNECTED TRANSACTION

In light of an increase in herd size of the Group and the price of dairy raw materials resulting in the amount of dairy products purchased by the Group from Yili from January to June 2022 reaching 65.92% of the Original Annual Cap for the year ending December 31, 2022, it is expected that the total annual purchase amounts by the Group and its associates from Yili under the Dairy Products Purchase Framework Agreement for the years ending December 31, 2022 and 2023 will exceed the Original Annual Caps. Hence, a revision of the Original Annual Caps is required and the Original Annual Caps will be increased from RMB40.5 million to RMB55.2 million to RMB90 million and RMB155 million (i.e. the Revised Annual Caps), respectively.

LISTING RULES IMPLICATIONS

Yili is a controlling Shareholder of the Company and therefore a connected person of the Company under the Listing Rules. Therefore, the transactions contemplated under the Dairy Products Purchase Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, if the Company proposes to revise the annual caps for continuing connected transactions, the Company will have to re-comply with the provisions of Chapter 14A of the Listing Rules applicable to the relevant continuing connected transaction. As one or more of the applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of the Revised Annual Caps exceeds 0.1% but all of the applicable percentage ratios are less than 5%, the transactions contemplated under the Dairy Products Purchase Framework Agreement as conducted under the Revised Annual Caps are exempt from the independent Shareholders' approval requirement, but are subject to reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

Reference is made to the Prospectus in respect of the Dairy Products Purchase Framework Agreement, pursuant to which Yili and its subsidiaries and associates agreed to supply dairy products, such as milk powder, feed-grade milk powder, etc. to the Group on a long-term basis. The principal terms of the Dairy Products Purchase Framework Agreement are set out in the Prospectus.

REVISION OF ORIGINAL ANNUAL CAPS

Revised Annual Caps

In light of an increase in herd size of the Group and the price of dairy raw materials resulting in the amount of dairy products purchased by the Group from Yili from January to June 2022 reaching 65.92% of the Original Annual Cap for the year ending December 31, 2022, it is expected that the total annual purchase amounts by the Group and its associates from Yili under the Dairy Products Purchase Framework Agreement for the years ending December 31, 2022 and 2023 will exceed the Original Annual Caps. Hence, a revision of the Original Annual Caps is required and the Original Annual Caps will be increased from RMB40.5 million and RMB55.2 million to RMB90 million and RMB155 million (i.e. the Revised Annual Caps), respectively.

As at the date of this announcement, the total annual purchase amounts by the Group and its associates from Yili under the Dairy Products Purchase Framework Agreement have not exceeded the Original Annual Cap for the year ending December 31, 2022.

Basis of the Revised Annual Caps

In determining the Revised Annual Caps, the Directors considered (i) the historical and prevailing market price for the dairy products, as well as the potential fluctuations in the market price for the dairy products in the future. According to the PRC customs statistics, the average price of the total imported whole milk powder in the PRC from January to June 2022 was US\$4,164 per ton, representing a year-on-year increase of 23.3%; (ii) the historical transaction volume of dairy products for the past two years; and (iii) the estimated demand for our Group's dairy products in the future two years. In particular, the quantity of the dairy products to be purchased by our Group is expected to increase by at least 56% and 147% in 2022 and 2023 as compared to 2021, respectively, due to the expected significant increase in our calves herd size in each of the two years as our several newly built dairy farms with strategic layout will be put into operation in 2022 and 2023. Therefore, we expect an increase in our demand for milk powder from Yili to feed the new-born dairy cows; and (iv) the possible future inflation in the PRC dairy industry.

HISTORICAL FIGURES

The total annual purchase amounts by the Group and its associates from Yili under the Dairy Products Purchase Framework Agreement for the year ended December 31, 2021 and the six months ended June 30, 2022 were approximately RMB29.3 million and approximately RMB26.7 million, respectively.

PRICING POLICY

Payment terms shall be determined from time to time by the parties on an arm's length basis. Fees charged for the purchase of dairy products shall be determined after arm's length negotiation between the parties with reference to the market prices of those sold to independent third parties. Specific payment will be made according to the dairy products purchase contract to be further entered into between Yili and its subsidiaries and associates on the one hand, and the Group on the other hand, under the Dairy Products Purchase Framework Agreement.

REASONS FOR AND BENEFITS OF THE DAIRY PRODUCTS PURCHASE FRAMEWORK AGREEMENT

As compared with the purchase of dairy products by the Group on its own or through an independent third-party agent, the dairy products provided to the Group, by virtue of Yili's economies of scale and bargaining power, make it possible for the Group to obtain the dairy products required for our operations at a lower cost, thus enabling the Group to maintain its competitiveness.

The Board has been closely monitoring the performance of the Dairy Products Purchase Framework Agreement. Taking into account the above factors, it is expected that the Original Annual Caps will not be sufficient to meet the Group's future business development and related requirements. Therefore, the Board proposed to revise the Original Annual Caps to allow flexibility and agility within higher caps for such transactions between the Group and Yili for the benefit of the normal and a more cost-efficient operation of the Group. Save for the revision of the Original Annual Caps, the terms of the Dairy Products Purchase Framework Agreement remain unchanged.

Having taken into account the above reasons and benefits, the Directors (including all of the independent non-executive Directors) are of the view that the continuing connected transactions contemplated under the Dairy Products Purchase Framework Agreement have been conducted on normal commercial terms, were entered into in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and that the Revised Annual Caps for the continuing connected transactions under the Dairy Products Purchase Framework Agreement are fair and reasonable.

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

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.

LISTING RULES IMPLICATIONS

Yili is a controlling Shareholder of the Company and therefore a connected person of the Company under the Listing Rules. Therefore, the transactions contemplated under the Dairy Products Purchase Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.54 of the Listing Rules, if the Company proposes to revise the annual caps for continuing connected transactions, the Company will have to re-comply with the provisions of Chapter 14A of the Listing Rules applicable to the relevant continuing connected transaction. As one or more of the applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of the Revised Annual Caps exceeds 0.1% but all of the applicable percentage ratios are less than 5%, the transactions contemplated under the Dairy Products Purchase Framework Agreement as conducted under the Revised Annual Caps are exempt from the independent Shareholders' approval requirement, but are subject to reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

Both Mr. Zhang Yujun (the Chairman and a non-executive Director), 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 revision of the Original Annual Caps. Therefore, Mr. Zhang and Mr. Xu abstained from voting on the Board resolution in relation to the revision of the Original Annual Caps. Save as disclosed above, none of the Directors had a material interest in the matters contemplated therein nor is any of them required to abstain from voting on the relevant Board resolutions approving the revision of the Original Annual Caps and the transactions contemplated thereunder.

DEFINITIONS

“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“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
“Dairy Products Purchase Framework Agreement”	the dairy products purchase framework agreement dated May 17, 2021 entered into between the Company and Yili
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries

“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
“Original Annual Caps”	the original annual caps for the continuing connected transactions under the Dairy Products Purchase Framework Agreement for the years ending December 31, 2022 and 2023 as disclosed in the Prospectus
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macao Special Administrative Region and Taiwan
“Prospectus”	the prospectus of the Company dated June 7, 2021
“Revised Annual Caps”	the revised annual caps for the continuing connected transactions under the Dairy Products Purchase Framework Agreement for the years ending December 31, 2022 and 2023
“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)”	holders of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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

“%”

per cent.

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

Hong Kong, August 29, 2022

As at the date of this announcement, the executive Directors are Mr. Yuan Jun 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.