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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: 1230)**

### **DISCLOSEABLE TRANSACTION REGARDING DISPOSAL OF BUSINESS TO ARLA**

#### **BUSINESS TRANSFER AGREEMENTS**

On 30 September 2022, the Company, Newou and Yashili Maanshan (as the Sellers), entered into the Business Transfer Agreements with Arla and Arla Beijing (as the Buyers), pursuant to which (1) the Sellers agree to transfer and the Buyers agree to purchase the Business, and (2) the Assets shall be transferred from the Sellers to the Buyers.

#### **LISTING RULES IMPLICATIONS**

As one or more of applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Proposed Yashili-Arla Transactions is more than 5% but all of them are less than 25%, the Proposed Yashili-Arla Transactions, on an aggregated basis, constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

#### **TAKEOVERS CODE IMPLICATIONS**

The Company is currently in the offer period (as defined in the Takeovers Code) with respect to the Privatization Proposal. In this connection, the Company has obtained the written consent from the Offeror in relation to the Proposed Yashili-Arla Transactions.

Pursuant to the Takeovers Code, the Estimated Gain Statement is considered to constitute a profit forecast under Rule 10 of the Takeovers Code and should therefore be reported on by the Company's auditors or accountants and financial advisers in accordance with Rule 10.4 of the Takeovers Code. The relevant reports from the Company's auditors or accountants and financial advisers on the Estimated Gain Statement are required to be included in the next document in connection with the Privatization Proposal to be despatched to the shareholders of the Company, which, if the Privatization Proposal materialises, is expected to be the Scheme Document. If the 2022 Final Results Announcement will be published prior to the despatch of the Scheme Document, the requirement under Rule 10 of the Takeovers Code to report on the Estimated Gain Statement will be superseded by the publication of the 2022 Final Results Announcement. Otherwise, the Estimated Gain Statement shall be reported on in accordance with Rule 10 of the Takeovers Code and the relevant reports will be included in the Scheme Document to be sent to the shareholders of the Company.

## **BACKGROUND**

The Group had been in the strategic cooperation with Arla in respect of certain Arla brands to distribute in the Chinese Mainland and Hong Kong high-end organic and other products manufactured by Arla. The Group and Arla have come to agreement on 30 September 2022 to terminate the strategic cooperation. In this respect, on the same day, the Company, Newou and Yashili Maanshan (as the Sellers), entered into the Business Transfer Agreements with Arla and Arla Beijing (as the Buyers).

## **BUSINESS TRANSFER AGREEMENTS**

The principal terms of the Business Transfer Agreements are summarized as follows:

### **Date**

30 September 2022

### **Parties**

In respect of part of the Business operated by the Company and its affiliates in the Chinese Mainland:

- The Company and Yashili Maanshan, as sellers
- Arla and Arla Beijing, as buyers

In respect of the remaining part of the Business operated by the Company and its affiliates in Hong Kong:

- The Company and Newou, as sellers
- Arla, as buyer

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the buyers and their ultimate beneficial owners are third parties independent of the Company and its connected persons.

### **Subject matter**

Pursuant to the Business Transfer Agreements, (1) the Sellers agree to transfer and the Buyers agree to purchase the Business, and (2) the Assets shall be transferred from the Sellers to the Buyers.

### **Consideration**

The consideration for the Proposed Transfer comprises EUR15 million and the YSL Landed Cost Price (collectively, the "**Consideration of the Proposed Transfer**"). The YSL Landed Cost Price in relation to the part of the Business in the Chinese Mainland are payable within 60 days from the Completion Date and the remaining part of the Consideration of the Proposed Transfer is payable no later than 8 days from the Completion by the Buyers in cash. The consideration was determined on the basis of normal commercial terms and after arm's length negotiation between the Buyers and the Sellers, taking into account (1) prevailing market conditions, the Business' historical financial performance and business prospectus and (2) the unaudited book value of the Business and the Assets in the amount of approximately EUR3 million as at the date of this announcement.

### **Conditions Precedent**

Completion of the Proposed Transfer is conditional on the satisfaction (or waiver, if applicable) of, among others, the following conditions precedents, on or before 30 September 2022:

- (a) there has been no material adverse change to the Business since the date of the Business Transfer Agreements;
- (b) the Parties have verified and conducted a physical counting of the tangible Assets and the inventory in the Assets and have finalised the relevant lists;

- (c) the Consideration of the Proposed Transfer is agreed by the Parties in accordance with the Business Transfer Agreements; and
- (d) Transition Services Agreement has been duly executed.

### **Completion and Termination**

The Completion shall take place on 30 September 2022 (being the Completion Date). Following the completion of the Proposed Transfer and the termination of the strategic cooperation with Arla, the Group will cease to distribute products manufactured by Arla (save for the transactions contemplated under the Transition Services Agreement).

If Completion does not take place on the Completion Date because the Sellers fail to comply with any of its relevant obligations in accordance with the Business Transfer Agreements, the Buyers may by notice to the Sellers proceed to Completion to the extent reasonably practicable, postpone Completion to such date as the Buyers may specify, or terminate the Business Transfer Agreements.

### **TRANSITION SERVICES AGREEMENT**

In connection with the Proposed Transfer, Yashili Maanshan, Arla and Arla Beijing, on the same date, entered into the Transition Services Agreement, pursuant to which Yashili Maanshan shall provide to Arla and/or its affiliates certain services in accordance with terms of the Transition Services Agreement to facilitate and effect the transition of the operation of the Business after the Completion.

The principal terms of the Transition Services Agreement are summarized as follows:

#### **Date**

30 September 2022

#### **Parties**

Yashili Maanshan, Arla and Arla Beijing

#### **Subject matter**

Upon request by Arla, Yashili Maanshan shall provide certain services (including re-registration of products, logistical and distribution services, IT services and other services as set forth in the Transition Services Agreement) to Arla, Arla Beijing or their affiliates.

## **Term**

The Transition Services Agreement shall commence on the Completion Date and shall continue for 12 months thereafter, unless terminated earlier in accordance with the terms and conditions therein.

## **Consideration**

Arla shall pay to Yashili Maanshan the following consideration which was determined on the basis of normal commercial terms and after arm's length negotiation between the parties, taking into account the related cost associated with the services to be provided and the prevailing market price of similar services in the industry:

- (a) a one-off fee of RMB1,000,000, which shall be paid within 90 days after signing of the Transition Services Agreement;
- (b) a fixed monthly IT fee of RMB417,000; and
- (c) a service fee equal to x% of net revenue from the Business for each calendar month as calculated in accordance with the terms and conditions of the Transition Services Agreement. "x" shall be 5 during the first six months of the term of the Transition Services Agreement and shall be 3 during the remaining term.

In connection with the Proposed Transfer and the Transition Services Agreement, the Group and Arla (and/or its affiliate) will enter into certain ancillary agreement(s) and/or arrangement(s) to effect the Proposed Transfer and to facilitate the operation of the Business during the term of the Transitional Service Agreement.

## **USE OF PROCEEDS FROM THE PROPOSED TRANSFER**

The net proceeds after deducting the expenses in relation to the Proposed Transfer are estimated to be approximately EUR18 million. The Company intends to utilize the net proceeds from the Proposed Transfer as the Group's general working capital as well as facilitating future investment opportunities.

## **INFORMATION ON THE COMPANY AND THE PARTIES**

The Company is an investment holding company, which, along with its subsidiaries, is primarily engaged in the manufacturing and sale of dairy and nourishment products. It operates in the following segments: (a) production and sale of milk powder products (including the development, manufacture and sale of milk powder products in the PRC and overseas); (b) other milk powder products (including the production and sale of base powder); (c) sale of dissolvable products (including the development, manufacture and sale of soymilk powder, rice flour and cereal products); and (d) other operations (mainly including the sale of surplus raw materials and consigned processing operation).

Yashili Maanshan is a company incorporated in the PRC and a wholly-owned subsidiary of the Company. It is primarily engaged in the wholesale and retail of dairy products.

Arla is a cooperative incorporated in Denmark and also the world-renowned organic dairy brand, and the high product quality it affords has made it an authorized brand fit for consumption by Danish royals.

Arla Beijing is a company incorporated in the PRC and a wholly-owned subsidiary of Arla. It is primarily engaged in the import and export, sale and development of dairy products.

Arla and Arla Beijing are not shareholders of the Company.

## **REASONS FOR AND BENEFIT OF THE PROPOSED YASHILI-ARLA TRANSACTIONS**

The Directors confirm that the Proposed Yashili-Arla Transactions are a commercial decision of the Group and Arla after due consideration. The Group has a strong portfolio of brands and it believes the Proposed Yashili-Arla Transactions will help strengthen the Group's overall financial position through optimizing brand portfolio to focus on core businesses and expansion of proprietary dairy product brands. In addition, the Directors are of the view that the Proposed Yashili-Arla Transactions would help the Company streamline its businesses and focus its resources on accelerating expansion of new products and solidifying market position in core brands. The Directors (including the independent non-executive Directors) consider that the Proposed Yashili-Arla Transactions are conducted on normal commercial terms and the terms of the Business Transfer Agreements and the Transition Services Agreement are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

## FINANCIAL EFFECTS OF THE PROPOSED TRANSFER

The unaudited book value of the Business and the Assets as at the date of this announcement was approximately EUR3 million. The unaudited financial information attributable to the Business and the Assets for the two years ended 31 December 2021 and 31 December 2020 is as follows:

	<b>Year ended</b> <b>31 December 2020</b> <i>(Unaudited)</i> <i>(RMB in million)</i>	<b>Year ended</b> <b>31 December 2021</b> <i>(Unaudited)</i> <i>(RMB in million)</i>
<b>Profit/(Loss) before taxation</b>	(167)	(11)
<b>Profit/(Loss) after taxation</b>	(167)	(11)

It is estimated that the Company will realise an unaudited gain of approximately EUR15 million from the Proposed Transfer (the “**Estimated Gain Statement**”). The aforementioned estimated gain is calculated by deducting from the Consideration of the Proposed Transfer (i) the aggregate of unaudited book value of the Business and the Assets and (ii) the estimated expenses and tax to be incurred in connection to the Proposed Transfer. The actual amount of gain or loss as a result of the Proposed Transfer to be recorded by the Group is subject to review and final audit to be performed by the Company’s independent auditors.

## LISTING RULES IMPLICATIONS

As one or more of applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Proposed Yashili-Arla Transactions is more than 5% but all of them are less than 25%, the Proposed Yashili-Arla Transactions, on an aggregated basis, constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

## TAKEOVERS CODE IMPLICATIONS

References are made to (i) the announcement dated 6 May 2022 jointly issued by China Mengniu Dairy Company Limited (“**Mengniu**”), Star Future Investment Company Limited (the “**Offeror**”) and the Company, in relation to, among other things, the Proposed Transactions and the Privatization Proposal (the “**Joint Announcement**”), (ii) the announcement jointly issued by Mengniu, the Offeror and the Company dated 27 May 2022 in relation to the extension of time for despatch of the Scheme Document, (iii) the announcements dated 27 June 2022, 27 July 2022 and 16 September 2022 jointly issued by Mengniu, the Offeror and the Company in relation to updates on the Privatization Proposal, and (iv) the announcement dated 16 August 2022 jointly issued by Mengniu, the Offeror and

the Company in relation to, among other things, updates on the Scheme Pre-Conditions and the amendment to the Scheme Condition (the “**August Update Announcement**”). Unless otherwise specified, capitalized terms used in this section and the warning section shall have the same meanings as those defined in the Joint Announcement.

The Company is currently in the offer period (as defined in the Takeovers Code) with respect to the Privatization Proposal. In this connection, the Company has obtained the written consent from the Offeror in relation to the Proposed Yashili-Arla Transactions.

Pursuant to the Takeovers Code, the Estimated Gain Statement is considered to constitute a profit forecast under Rule 10 of the Takeovers Code and should therefore be reported on by the Company’s auditors or accountants and financial advisers in accordance with Rule 10.4 of the Takeovers Code. Since this announcement is required to be made pursuant to Rule 14.34(2) of the Listing Rules, which requires the Company to publish an announcement as soon as possible after the terms of any discloseable transaction have been finalised and given the time constraints, the Company has encountered genuine practical difficulties (time-wise or otherwise) in meeting the requirements set out in Rule 10.4 of the Takeovers Code.

Pursuant to Practice Note 2 of the Takeovers Code, the Executive is prepared to permit publication of the Estimated Gain Statement in this announcement without full compliance with Rule 10 of the Takeovers Code and the reports from the Company’s auditors or accountants and financial advisers on the Estimated Gain Statement are required to be included in the next document in connection with the Privatization Proposal to be despatched to the shareholders of the Company, which, if the Privatization Proposal materialises, is expected to be the Scheme Document. If the 2022 Final Results Announcement will be published prior to the despatch of the Scheme Document, the requirement under Rule 10 of the Takeovers Code to report on the Estimated Gain Statement will be superseded by the publication of the 2022 Final Results Announcement. Otherwise, the Estimated Gain Statement shall be reported on in accordance with Rule 10 of the Takeovers Code and the relevant reports will be included in the Scheme Document to be sent to the shareholders of the Company.

**Shareholders and potential investors of the Company should note that the Estimated Gain Statement does not meet the standard required by Rule 10 of the Takeovers Code and has not been reported on in accordance with the Takeovers Code. Shareholders and potential investors of the Company are advised to exercise caution in placing reliance on the Estimated Gain Statement in assessing the merits and demerits of the Privatization Proposal and when dealing in the securities of the Company.**



## WARNINGS

**As the Completion of the Proposed Transfer is subject to certain conditions being satisfied or waived, the Proposed Transfer may or may not proceed to completion.**

**In addition, shareholders and potential investors of the Company should be aware that the making of the Privatization Proposal is subject to the Scheme Pre-Conditions, and therefore the Privatization Proposal is a possibility only and may or may not be made. Furthermore, completion of the Privatization Proposal and the Scheme is subject to the Scheme Pre-Conditions and the Scheme Conditions as set out in the Joint Announcement and as amended in the August Update Announcement being satisfied (or, where applicable, waived) and thus the Privatization Proposal and the Scheme may or may not become unconditional and may or may not be completed.**

**Therefore, shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.**

## DEFINITIONS

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

“2022 Final Results Announcement”	the announcement to be issued by Yashili for the consolidated results of the Group for the financial year of 2022
“Arla”	Arla Foods amba, a cooperative incorporated under the laws of Denmark
“Arla Beijing”	Arla Foods Dairy Products Technical Service (Beijing) Co., Ltd., a company incorporated under the PRC and a wholly-owned subsidiary of Arla
“Assets”	all right, title and interest in and to the assets primarily used in the Business, including certain tangible and intangible assets such as inventories, intellectual property rights, books and records, contracts and certain employees working with the Business
“Board”	the board of directors of the Company

“Business”	the business in relation to the distribution by the Company and its affiliates in the Chinese Mainland and Hong Kong of Arla brand infant milk formula products and other products manufactured by Arla and its affiliates
“Business Transfer Agreements”	collectively, (i) the business transfer agreement entered into among the Company, Yashili Maanshan, Arla and Arla Beijing in relation to the Proposed Transfer of part of the Business operated in the Chinese Mainland and (ii) the business transfer agreement entered into among the Company, Newou and Arla in relation to the Proposed Transfer of the remaining part of the Business operated in Hong Kong, both of which were dated 30 September 2022 and on substantially similar terms and conditions
“Buyers”	Arla and Arla Beijing, as buyers in respect of the Business operated by the Company and its affiliates in the Chinese Mainland and Hong Kong
“Company”	Yashili International Holdings Ltd, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1230)
“Completion”	completion of the Proposed Transfer in accordance with the terms and conditions of the Business Transfer Agreements
“Completion Date”	30 September 2022, on which the Completion shall take place
“connected person”	has the meaning ascribed to it under the Listing Rules
“Consideration of the Proposed Transfer”	has the meaning ascribed to it in the sub-section headed “Consideration” under the section headed “BUSINESS TRANSFER AGREEMENTS”
“Directors”	the directors of the Company
“Estimated Gain Statement”	has the meaning ascribed to it in the section headed “FINANCIAL EFFECTS OF THE PROPOSED TRANSFER”
“EUR”	the lawful currency of the European Union

“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Newou”	Newou Hong Kong International Co., Ltd, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of the Company
“PRC” or “China”	the People’s Republic of China
“Proposed Transfer”	the proposed transfer of the Business operated by the Company and its affiliates in the Chinese Mainland and Hong Kong and transfer of the Assets by the Sellers to the Buyers pursuant to the Business Transfer Agreements
“Proposed Yashili-Arla Transactions”	collectively, the Proposed Transfer and the transactions contemplated under the Transition Services Agreement
“RMB”	Renminbi, the lawful currency of PRC
“Sellers”	the Company, Newou and Yashili Maanshan, as sellers in respect of the Business operated by the Company and its affiliates in the Chinese Mainland and Hong Kong
“Shareholder(s)”	person(s) whose name(s) appear on the register of members of the Company as registered holder(s) of the share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers of Hong Kong
“Transition Services Agreement”	the transition services agreement dated 30 September 2022 entered into among Yashili Maanshan, Arla and Arla Beijing, to facilitate and effect the transition of the operation of the Business after the Completion
“Yashili Maanshan”	Yashili Dairy (Maanshan) Trading Limited, a company incorporated under the laws of the PRC and a wholly owned subsidiary of the Company

“YSL Landed Cost Price” the aggregate of the Sellers’ purchase price for the inventory, the cost of freights to warehouse, custom duty, custom clearance cost and other necessary and reasonable costs incurred and reflected in the book value of the inventory in the accounting books of the Sellers, subject to the discount rates as set out in the Business Transfer Agreements. The amount of the YSL Landed Cost Price shall be agreed between the Sellers and the Buyers before Completion pursuant to the principles set out in the Business Transfer Agreements

% per cent

By order of the board of directors of  
**Yashili International Holdings Ltd**  
雅士利國際控股有限公司  
**Kwok Wai Cheong, Chris**  
Company Secretary

Hong Kong, 30 September 2022

*As at the date of this announcement, the Board comprises: Mr. Jeffrey, Minfang Lu (Chairman), Mr. Qin Peng, Mr. Zhang Ping and Mr. Gu Peiji (alias Philip Gu) as non-executive directors; Mr. Yan Zhiyuan as executive director; and Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway as independent non-executive directors.*

*The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.*