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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)**

## **CONNECTED TRANSACTION IN RELATION TO THE ESTABLISHMENT OF A JOINT VENTURE**

### **THE CAPITAL CONTRIBUTION AGREEMENT**

The Board is pleased to announce that on October 26, 2022, Inner Mongolia Youran and the JV Parties entered into the Capital Contribution Agreement, pursuant to which Inner Mongolia Youran and the JV Parties shall establish the Joint Venture for the innovation, research and development (“R&D”) of the businesses related to dairy products, raw milk and comprehensive ruminant farming solutions in the PRC.

### **IMPLICATIONS UNDER THE LISTING RULES**

Yili is a controlling shareholder of the Company and therefore a connected person of the Company under the Listing Rules. In addition, Dairy Technology Research Institute is a wholly-owned subsidiary of Yili and Ausnutria is a non-wholly-owned subsidiary of Jingang, which is in turn a wholly-owned subsidiary of Yili. Therefore, each of Dairy Technology Research Institute and Ausnutria is an associate of Yili and also a connected person of the Company under the Listing Rules. Accordingly, the transaction contemplated under the Capital Contribution Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under the Listing Rules in respect of the Capital Contribution Agreement exceeds 0.1% but all of the applicable percentage ratios are less than 5%, the transaction contemplated under the Capital Contribution Agreement is exempt from the independent Shareholders’ approval requirement, but is subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

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## THE CAPITAL CONTRIBUTION AGREEMENT

The principal terms of the Capital Contribution Agreement are as follows:

**Date:** October 26, 2022

**Parties:** (i) Inner Mongolia Youran;  
(ii) Yili;  
(iii) Dairy Technology Research Institute;  
(iv) Ausnutria; and  
(v) Bioflag.

### Term

The establishment of the Joint Venture shall be effective from the date of issuance of its business license and its operation term shall be 30 years.

### Registered capital

The registered capital of the Joint Venture will be RMB100,000,000, which shall be contributed by Inner Mongolia Youran and the JV Parties as follows:

Yili	RMB73,000,000
Inner Mongolia Youran	RMB10,000,000
Dairy Technology Research Institute	RMB10,000,000
Ausnutria	RMB5,000,000
Bioflag	RMB2,000,000

In accordance with the articles of association of the Joint Venture, each party will be required to make its capital contribution in two equal instalments, with the first instalment to be paid on or before December 31, 2022 and the second instalment to be paid on or before December 31, 2024. Any dividends distributed by the Joint Venture shall be in accordance with the proportion of capital contribution made.

The amounts of capital contribution were arrived at after arm's length negotiation between the Company and the JV Parties with reference to the capital requirements of the Joint Venture. The capital contribution of Inner Mongolia Youran will be funded by internal resources of the Group.

### **Business of the Joint Venture**

The Joint Venture shall engage in the innovation and R&D of the businesses related to dairy products, raw milk and comprehensive ruminant farming solutions in the PRC.

### **Board composition**

The board of the Joint Venture shall comprise seven members, of which Yili shall appoint four members (including the chairman of the board), and each of Inner Mongolia Youran, Dairy Technology Research Institute and Ausnutria shall appoint one member.

### **Transfer of equity interest**

A shareholder of the Joint Venture may transfer its equity interest in full or in part to other shareholders of the Joint Venture or a third party, provided that (i) its capital contribution has been made in full prior to the transfer (save for Yili in respect of its second instalment), (ii) the transferor shareholder has not breached the articles of association of the Joint Venture or the Capital Contribution Agreement, and (iii) no shareholder holding less than 7% equity interest of the Joint Venture shall transfer its equity interest within three years of the establishment of the Joint Venture (unless otherwise approved by the other shareholders of the Joint Venture).

### **Pre-emptive right**

In the event that a shareholder of the Joint Venture (save for Yili) wishes to transfer its equity interest, Yili shall have a pre-emptive right to acquire such equity interest. If Yili does not exercise such pre-emptive right, the remaining shareholders of the Joint Venture shall then have a pre-emptive right to acquire such equity interest in accordance with their equity interest. If the remaining shareholders do not exercise their pre-emptive right, the transfer of equity interest to a third party must be approved by two-thirds or more of the existing shareholders (save for the transferor shareholder).

### **Termination**

In accordance with the articles of association of the Joint Venture, the Joint Venture will be terminated upon the following events: (i) expiration of operation term; (ii) approval of the shareholders of the Joint Venture; (iii) merger or dissolution; (iv) the revocation of the business license of the Joint Venture; or (v) the occurrence of a force majeure event.

## **INFORMATION ABOUT THE PARTIES**

### **Inner Mongolia Youran, the Company and the Group**

Inner Mongolia Youran is a wholly-owned subsidiary of the Company. 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.

### **Dairy Technology Research Institute**

Dairy Technology Research Institute is a wholly-owned subsidiary of Yili, and is principally engaged in the research of dairy technology, with its business scope covering the development of dairy technology, pilot-scale experiment and maturation, result transformation and other technical services.

### **Ausnutria**

Ausnutria is a wholly-owned subsidiary of Ausnutria Dairy Corporation Ltd ("**Ausnutria Dairy**"), 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: 1717). Ausnutria Dairy and its subsidiaries are principally engaged in (i) the dairy industry with activities ranging from R&D, milk collection, processing, production, packaging, marketing and distribution of infant formula and other dairy products to customers in the PRC, the Netherlands, Australia and other overseas countries; and (ii) R&D, production, marketing and distribution of nutrition products to customers principally located in the PRC and Australia. Ausnutria Dairy is a non-wholly-owned subsidiary of Jingang, which is in turn a wholly-owned subsidiary of Yili.

### **Bioflag**

Bioflag is a wholly-owned subsidiary of BIOFLAG Holding Limited, a company incorporated in Hong Kong with limited liability which is in turn held as to, among others, 38.59% indirectly by its ultimate beneficial owner Center Laboratories Inc., a company listed on the Taiwan Stock Exchange, and 27.5% by Ausnutria Dairy. Bioflag is principally engaged in developing, manufacturing and R&D of probiotics. Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Bioflag and its ultimate beneficial owner are third parties independent of the Company and its connected persons.

## **REASONS FOR AND BENEFITS OF THE CAPITAL CONTRIBUTION AGREEMENT**

The Group is a leader in China's upstream dairy market with an all-round business in the upstream dairy market extending from breeding, feed to raw milk production. Through the establishment of the Joint Venture, the Group will be able to participate in the innovation and R&D of the businesses related to dairy products, raw milk and comprehensive ruminant farming solutions in the PRC, which will enable it to demonstrate its technological strength and consolidate its position in the industry, as well as enhance its technological innovation capability and core competitiveness. In addition, with the involvement of other industry leading parties and top research institutions, the Group will be able to expand its scope of R&D and leverage this consolidation of the industry's top talent and experience and advanced equipment and technology to gain knowledge about and apply the latest industry technologies to reduce innovation costs.

Having considered the above factors, the Directors (including the independent non-executive Directors) are of the view that the Capital Contribution Agreement provides an excellent opportunity for the Group to invest in and improve its technological innovation capability and core competitiveness, which is in line with the strategic development of the Group and that the terms of the Capital Contribution Agreement are fair and reasonable, is on normal commercial terms and in the usual and ordinary course of business of the Group and in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATIONS**

Yili is a controlling shareholder of the Company and therefore a connected person of the Company under the Listing Rules. In addition, Dairy Technology Research Institute is a wholly-owned subsidiary of Yili and Ausnutria is a non-wholly-owned subsidiary of Jingang, which is in turn a wholly-owned subsidiary of Yili. Therefore, each of Dairy Technology Research Institute and Ausnutria is an associate of Yili and also a connected person of the Company under the Listing Rules. Accordingly, the transaction contemplated under the Capital Contribution Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios under the Listing Rules in respect of the Capital Contribution Agreement exceeds 0.1% but all of the applicable percentage ratios are less than 5%, the transaction contemplated under the Capital Contribution Agreement is exempt from the independent Shareholders' approval requirement, but is subject to the 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 Capital Contribution Agreement. Therefore, Mr. Zhang and Mr. Xu abstained from voting on the Board resolutions in relation to the Capital Contribution Agreement. Save as disclosed above, none of the Directors had a material interest in the matters contemplated therein nor was any of them required to abstain from voting on the relevant Board resolutions approving the Capital Contribution Agreement and the transactions contemplated thereunder.

## DEFINITIONS

“Ausnutria”	Ausnutria Dairy (China) Co., Ltd.* (澳優乳業(中國)有限公司), a wholly-owned subsidiary of Ausnutria Dairy, 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: 1717)
“Bioflag”	BIOFLAG CO., LTD.* (錦喬生物科技有限公司), a company established under the laws of the PRC
“Board”	the board of Directors
“Capital Contribution Agreement”	the capital contribution agreement dated October 26, 2022 entered into between Inner Mongolia Youran and the JV Parties
“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 Technology Research Institute”	Inner Mongolia Dairy Technology Research Institute Co., Ltd.* (內蒙古乳業技術研究院有限責任公司), a company established under the laws of the PRC and a wholly-owned subsidiary of 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
“Inner Mongolia Youran”	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 in August 2007 and a wholly-owned subsidiary of the Company
“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

“Joint Venture”	the joint venture to be established by Inner Mongolia Youran and the JV Parties pursuant to the Capital Contribution Agreement
“JV Parties”	Yili, Dairy Technology Research Institute, Ausnutria and Bioflag
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macao Special Administrative Region and Taiwan
“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, October 26, 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.*

\* *For identification purposes only*