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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 TRANSACTION

(1) THE SHARED FINANCIAL SERVICES FRAMEWORK AGREEMENT AND (2) THE PURCHASE AND SALE FRAMEWORK AGREEMENT

THE SHARED FINANCIAL SERVICES FRAMEWORK AGREEMENT AND THE PURCHASE AND SALE FRAMEWORK AGREEMENT

The Board announces that on November 28, 2022, the Company entered into:

- (i) the Shared Financial Services Framework Agreement with Yili, pursuant to which Yili shall provide accounting related shared financial services to the Group; and
- (ii) the Purchase and Sale Framework Agreement with Zhongdi, pursuant to which Zhongdi shall purchase comprehensive ruminant farming solutions products and services from the Group.

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. Zhongdi is a non-wholly-owned subsidiary of Yili and therefore also a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under each of the Shared Financial Services Framework Agreement and the Purchase and Sale Framework Agreement constitute continuing connected transactions 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 each of the Shared Financial Services Framework Agreement and Purchase and Sale Framework Agreement exceeds 0.1% but all of the applicable percentage ratios are less than 5%, the transactions contemplated under the Shared Financial Services Framework Agreement and the transactions contemplated under the Purchase and Sale Framework Agreement 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.

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The principal terms of the Shared Financial Services Framework Agreement and the Purchase and Sale Framework Agreement are set out below.

1. THE SHARED FINANCIAL SERVICES FRAMEWORK AGREEMENT

Date

November 28, 2022

Parties

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

Term

Unless terminated earlier in accordance with the terms of the Shared Financial Services Framework Agreement, the Shared Financial Services Framework Agreement shall be effective from January 1, 2023 until December 31, 2025.

Scope of services

Yili shall provide accounting related shared financial services to the Group.

Pricing guidelines

The fees payable by the Company under the Shared Financial Services Framework Agreement for the accounting related shared financial services shall be determined using cost-plus basis, being the total costs incurred by Yili in respect of the provision of the shared financial services plus a fixed percentage of 5%, to cover costs and expenses, such as personnel and maintenance, incurred by Yili in sharing the financial services.

Historical amounts

The Company did not conduct any transactions with Yili in respect of the accounting related shared financial services before December 31, 2021. The service fees in respect of the shared financial services paid/payable by the Group to Yili for the six months ended June 30, 2022 were approximately RMB3.9 million. The annual cap for the service fees payable/paid by the Group to Yili under the aforementioned transaction falls below the de minimis threshold as stipulated under Rule 14A.76(1)(a) of the Listing Rules.

Annual caps and basis of determination

The annual caps for the service fees payable under the Shared Financial Services Framework Agreement for the years ending December 31, 2023, 2024 and 2025 are as follows:

Year ending December 31		
2023	2024	2025
<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
13	13	13

In arriving at the annual caps, the Directors considered the following:

- (i) the historical service fees totalling approximately RMB3.9 million paid/payable by the Group to Yili for the six months ended June 30, 2022 pursuant to an existing shared financial services agreement entered into between the Company and Yili; and
- (ii) some of the Group's subsidiaries have not yet adopted the financial sharing system in 2022, and the Group will fully adopt the financial sharing system from 2023 onwards and eventually achieve full coverage of the Group's financial sharing. Accordingly, the Group expects an increase in the amount of usage of financial sharing services from 2023 to 2025, and the annual caps were determined taking into account the salaries, benefits and the future potential increase of the relevant supporting staff.

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

The reasons for and benefits of entering into the Shared Financial Services Framework Agreement are as follows:

- (i) promoting financial sharing, utilizing professional labor division and standardized procedures to achieve a fully automatic processing model of and large-scale benefits from fundamental operation, effectively assisting the Group's digital transformation strategy, achieving management benefits and advantages in terms of lower cost and increase efficiency, the promotion of financial transformation, risks prevention, the improvement of employee satisfaction; and
- (ii) in view of the lack of advantages in terms of cost and efficiency in organizing financial sharing on its own, the Group chose to have other parties provide financial sharing services. Having considered that the financial sharing of Yili has been in mature operation for many years and Yili has rich experience in financial sharing of dairy products, the Company considers that Yili to be a more suitable and ideal provider for providing shared financial services on a comparable basis.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the Shared Financial Services Framework Agreement is entered into on normal commercial terms that are fair and reasonable, in the ordinary and usual course of business of the Company, and in the interests of the Company and the Shareholders as a whole.

2. THE PURCHASE AND SALE FRAMEWORK AGREEMENT

Date

November 28, 2022

Parties

- (i) the Company; and
- (ii) Zhongdi.

Term

Unless terminated earlier in accordance with the terms of the Purchase and Sale Framework Agreement, the Purchase and Sale Framework Agreement shall be effective for a period of three years commencing from January 1, 2023.

Subject matter

Zhongdi shall purchase comprehensive ruminant farming solutions products and services, including but not limited to feed products, ruminant farming products, breeding products and related services, from the Group.

Pricing guidelines

Pursuant to the Purchase and Sale Framework Agreement, the prices charged for the purchase and sale of comprehensive ruminant farming solutions products and services shall be determined after arm's length negotiations between the parties according to the following guidelines:

- (i) where there is a tender and bidding process, the bidding price;
- (ii) where there is no tender and bidding process, the comparable local, national or international industry prices of the different types and qualities of comprehensive ruminant farming solutions products and services obtained through independent third parties such as industry associations; or
- (iii) where there is no tender and bidding process and comparable industry prices for the specific type of product or service or where it is not practicable to apply the above pricing policies, Zhongdi shall obtain and compare quotations for similar products and/or services from at least two independent third party suppliers and compare such quotes against the terms offered by the Group taking into account the cost, technology, quality, procurement volume and historical transaction prices of the Group in respect of similar products and/or services. The parties shall ensure that the terms shall be no less favourable than those offered by the independent third party suppliers.

Historical amounts

The transaction amount of the comprehensive ruminant farming solutions products and services supplied to Zhongdi by the Group for the two years ended December 31, 2019 and 2020 and under the Existing Framework Agreement for the year ended December 31, 2021 and the six months ended June 30, 2022 amounted to approximately RMB189.6 million, RMB130.8 million, RMB88.3 million, and RMB58.8 million, respectively.

Annual caps and basis of determination

The annual caps for the transaction amount under the Purchase and Sale Framework Agreement for the years ending December 31, 2023, 2024 and 2025 are as follows:

Year ending December 31		
2023	2024	2025
<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
189	206	230

In arriving at the annual caps, the Directors considered the following:

- (i) the historical and prevailing market price for the comprehensive ruminant farming solutions products and services, as well as the potential fluctuations in the market price for the comprehensive ruminant farming solutions products and services in the future;
- (ii) the historical transaction volume of different types of comprehensive ruminant farming solutions products and services during the three years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022; and
- (iii) the estimated demand for relevant comprehensive ruminant farming solutions products and services in the future three years, in particular the expected increase in the demand of the relevant comprehensive ruminant farming solutions products and services from Zhongdi.

REASONS FOR AND BENEFITS OF ENTERING INTO THE PURCHASE AND SALE FRAMEWORK AGREEMENT

Entering into the Purchase and Sale Framework Agreement with Zhongdi is conducive to the provision of comprehensive ruminant farming solutions products and services by the Group in its ordinary and usual course of business and the establishment of a long-term and win-win business relationship with Zhongdi.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the Purchase and Sale Framework Agreement is entered into on normal commercial terms that are fair and reasonable, in the ordinary and usual course of business of the Company, and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL MEASURES

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

- (i) in respect of the Shared Financial Services Framework Agreement, the Group has ensured that the Group's financial and accounting data are completely independent of each other through the physical separation of servers and data storage, independent operation of systems and separation of shared service staff, and the undertaking by Yili in the Shared Financial Services Framework Agreement that it will not have the right to view or modify the Group's relevant financial and business data, information and workflow beyond the authorized system. The Company has adopted a financial management system to guide and monitor its financial activities. The Group has an independent tax registration and has paid tax independently pursuant to applicable PRC laws and regulations;
- (ii) the Company's independent non-executive Directors will independently scrutinize the implementation and enforcement of the transactions conducted under the Shared Financial Services Framework Agreement and the Purchase and Sale 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 transactions with Yili and/or Zhongdi, the Company will take appropriate steps to implement the decision of the independent non-executive Directors. Information on the transactions conducted under the Shared Financial Services Framework Agreement and the Purchase and Sale Framework Agreement and the views of the independent non-executive Directors on the transactions conducted under the Shared Financial Services Framework Agreement and the Purchase and Sale Framework Agreement will be disclosed in the annual report of the Company;
- (iii) during its annual audit, the Company will engage its auditors to review the continuing connected transactions to ensure that the transactions under the Shared Financial Services Framework Agreement and the Purchase and Sale 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
- (iv) the Company will monitor the continuing connected transactions in accordance with its internal control procedures. The Company's responsible financial person shall check the aggregate amount of fees, and promptly report to the Company's chief financial officer/the Board if such services fees are close to exceeding, or likely to exceed the proposed caps.

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.

Zhongdi and Yili

Zhongdi is a non-wholly-owned subsidiary of Yili and is primarily engaged in dairy farming in the PRC, including raising dairy cows, breeding dairy cows, producing and selling premium raw milk, importing and selling dairy cows of quality breeds and breeding stock, as well as conducting import trading business in alfalfa hay and other animal husbandry-related products. 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. Zhongdi is a non-wholly-owned subsidiary of Yili and therefore also a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under each of the Shared Financial Services Framework Agreement and the Purchase and Sale Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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Both Mr. Zhang Yujun (the Chairman and a non-executive Director), who is an assistant to the president of Yili and a general manager 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 each of the Shared Financial Services Framework Agreement and the Purchase and Sale Framework Agreement. Therefore, Mr. Zhang Yujun and Mr. Xu Jun have abstained from voting on the Board resolutions in relation to the Shared Financial Services Framework Agreement and Purchase and Sale Framework 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 Shared Financial Services Framework Agreement and the Purchase and Sale Framework Agreement and the transactions contemplated thereunder.

DEFINITIONS

“associate(s)”	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, whose Shares are listed on the Main Board of the Stock Exchange (stock code: 9858)

“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
“Director(s)”	the director(s) of the Company
“Existing Framework Agreement”	the materials supply framework agreement dated September 4, 2020 entered into between Inner Mongolia Youran Dairy Co., Ltd. (內蒙古優然牧業有限責任公司), a wholly-owned subsidiary of the Company and China ZhongDi Dairy Holdings Limited (中國中地乳業控股有限公司), a non-wholly-owned subsidiary of Yili, details of which are set out in the prospectus of the Company dated June 7, 2021
“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
“Purchase and Sale Framework Agreement”	the products and services purchase and sale framework agreement regarding comprehensive ruminant farming solutions entered by the Company and ZhongDi Farm Technology Corporation (中地牧業科技集團有限公司) on November 28, 2022
“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
“Shared Financial Services Framework Agreement”	the shared financial services framework agreement dated November 28, 2022 entered into between Yili and the Company in respect of the provision of accounting related services by Yili to the Group
“Shareholder(s)”	holders 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\$”	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, and where the context requires, includes its subsidiaries and associates
“Zhongdi”	ZhongDi Farm Technology Corporation (中地牧業科技集團有限公司), a company established in April 2014 under the laws of PRC which is indirectly owned as to 72.84% by a wholly-owned subsidiary of Yili and as to 27.16% by the Company indirectly, and where the context requires, includes its subsidiaries and associates
“%”	per cent.

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

Hong Kong, November 28, 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

* *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 the PRC and their English translations, the Chinese names shall prevail.*