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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)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

- (1) THE DAIRY PRODUCTS PURCHASE FRAMEWORK AGREEMENT**
(2) THE RAW MILK PURCHASE AND SALE FRAMEWORK AGREEMENT
AND
(3) RENEWAL OF DISCLOSEABLE AND CONTINUING CONNECTED
TRANSACTIONS IN RELATION TO THE FINANCIAL SERVICES
FRAMEWORK AGREEMENT

THE DAIRY PRODUCTS PURCHASE FRAMEWORK AGREEMENT, THE RAW MILK PURCHASE AND SALE FRAMEWORK AGREEMENT AND THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

The Board announces that on April 24, 2023, the Company renewed:

- (i) the Dairy Products Purchase Framework Agreement with Yili, pursuant to which Yili Group agreed to supply dairy products, such as milk powder, feed-grade milk powder, etc. to the Group for a term commencing from January 1, 2024 to December 31, 2026;
- (ii) the Raw Milk Purchase and Sale Framework Agreement with Yili, pursuant to which the Group agreed to supply raw milk to Yili Group for a term commencing from January 1, 2024 to December 31, 2026; and
- (iii) the Financial Services Framework Agreement with Yili Finance Company, pursuant to which Yili Finance Company agreed to provide a range of financial services to the Group, including the Deposit Services, the Settlement Services, and the Other Financial Services, for a term commencing from January 1, 2024 to December 31, 2026.

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. As Yili Finance Company is a subsidiary of Yili, Yili Finance Company is an associate of Yili and therefore also a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under each of the Dairy Products Purchase Framework Agreement, the Raw Milk Purchase and Sale Framework Agreement, and the Financial Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. In addition, the Deposit Services under the Financial Services Framework Agreement also constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Dairy Products Purchase Framework Agreement

As one or more of the applicable percentage ratios under the Listing Rules in respect of the Dairy Products Purchase Framework Agreement exceeds 0.1% but all of the applicable percentage ratios are less than 5%, the transactions contemplated under the Dairy Products Purchase 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.

Raw Milk Purchase and Sale Framework Agreement

As one or more of the applicable percentage ratios under the Listing Rules in respect of the Raw Milk Purchase and Sale Framework Agreement is more than 5%, the transactions contemplated under the Raw Milk Purchase and Sale Framework Agreement are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Financial Services Framework Agreement

In respect of the Deposit Services under the Financial Services Framework Agreement, as one or more of the applicable percentage ratios under the Listing Rules exceeds 5% but is less than 25%, the provision of the Deposit Services by Yili Finance Company to the Group under the Financial Services Framework Agreement constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. The Deposit Services under the Financial Services Framework Agreement also constitute a continuing connected transaction of the Company and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Settlement Services and the Other Financial Services to be provided by Yili Finance Company to the Group under the Financial Services Framework Agreement will be carried out on normal commercial terms or better and the aggregate annual fees to be paid by the Group to Yili Finance Company for each of the three years ending December 31, 2024, 2025 and 2026 are expected to fall below the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules. Accordingly, such transactions are fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board announces that on April 24, 2023, the Company renewed:

- (i) the Dairy Products Purchase Framework Agreement with Yili, pursuant to which Yili Group agreed to supply dairy products, such as milk powder, feed-grade milk powder, etc. to the Group for a term commencing from January 1, 2024 to December 31, 2026;
- (ii) the Raw Milk Purchase and Sale Framework Agreement with Yili, pursuant to which the Group agreed to supply raw milk to Yili Group for a term commencing from January 1, 2024 to December 31, 2026; and
- (iii) the Financial Services Framework Agreement with Yili Finance Company, pursuant to which Yili Finance Company agreed to provide a range of financial services to the Group, including the Deposit Services, the Settlement Services, and the Other Financial Services, for a term commencing from January 1, 2024 to December 31, 2026.

1. THE DAIRY PRODUCTS PURCHASE FRAMEWORK AGREEMENT

On May 17, 2021, the Company entered into the Existing Dairy Products Purchase Framework Agreement with Yili in respect of the provision of dairy products by Yili Group to the Group. The details of the Existing Dairy Products Purchase Framework Agreement are set out in the Prospectus and the announcement of the Company dated August 29, 2022. As the Existing Dairy Products Purchase Framework Agreement will expire on December 31, 2023 and the Group expected to continue to conduct the transactions thereunder upon the expiry of such agreement, the Company intends to renew the Dairy Products Purchase Framework Agreement with Yili.

Date

April 24, 2023

Parties

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

Term

Unless terminated earlier in accordance with the terms of the Dairy Products Purchase Framework Agreement, the Dairy Products Purchase Framework Agreement shall be effective from January 1, 2024 to December 31, 2026.

Subject matter

Yili Group agreed to supply dairy products, such as milk powder, feed-grade milk powder, etc. to the Group.

Pricing guidelines

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 further entered into between Yili Group on the one hand, and the Group on the other hand, under the Dairy Products Purchase Framework Agreement.

Historical amounts

The transaction amounts under the Existing Dairy Products Purchase Framework Agreement for the two years ended December 31, 2021 and 2022 amounted to approximately RMB29.3 million and RMB52.5 million, respectively.

Annual caps and basis of determination

The annual caps under the Dairy Products Purchase Framework Agreement for the three years ending December 31, 2024, 2025 and 2026 are as follows:

2024 <i>RMB million</i>	Year ending December 31, 2025 <i>RMB million</i>	2026 <i>RMB million</i>
134	139	148

In determining the aforementioned annual caps, the Directors considered the following:

- (i) the historical and prevailing market price for the dairy products, as well as the potential fluctuations in the market price for the goods in the future. As the impact of the pandemic continues to subside, it is expected that the average price of the total imported whole milk powder in the PRC from 2024 to 2026 will increase moderately;
- (ii) the historical transaction volume of dairy products during the past two years;
- (iii) the estimated demand for our Group's dairy products in the three years ending December 31, 2024, 2025 and 2026. In particular, the quantity of the dairy products to be purchased by our Group is expected to increase by at least 82% on average in the three years ending 31 December 2026 as compared to 2022 due to the expected significant increase in our calves herd size as our several newly built dairy farms with strategic layout will be put into operation in 2023 and beyond. Therefore, the Group expects an increase in our demand for milk powder from Yili to feed the calves; and
- (iv) the possible future inflation in the PRC dairy industry.

REASONS FOR AND BENEFITS OF ENTERING INTO 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 its operations at a lower cost, thus enabling the Group to maintain competitiveness.

In light of the above, the Directors (including the independent non-executive Directors) are of the view that the Dairy Products Purchase Framework Agreement and the transactions contemplated thereunder are 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.

2. THE RAW MILK PURCHASE AND SALE FRAMEWORK AGREEMENT

On May 17, 2021, the Company entered into the Existing Raw Milk Purchase and Sale Framework Agreement with Yili in respect of the provision of long-term supply of raw milk by the Group to Yili Group, the term of which is three years commencing from the Listing Date. Further details of the Existing Raw Milk Purchase and Sale Framework Agreement are set out in the Prospectus. As the Existing Raw Milk Purchase and Sale Framework Agreement will expire on December 31, 2023 and the Group expected to continue to conduct the transactions thereunder upon the expiry of such agreement, the Company intends to renew the Raw Milk Purchase and Sale Framework Agreement with Yili.

The principal terms of the Raw Milk Purchase and Sale Framework Agreement are set out below:

Date

April 24, 2023

Parties

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

Term

Unless terminated earlier in accordance with the terms of the Raw Milk Purchase and Sale Framework Agreement, the Raw Milk Purchase and Sale Framework Agreement shall be effective from January 1, 2024 to December 31, 2026.

Scope of services

- (i) Yili Group agreed to purchase raw milk that meets the relevant national standards and the quality requirements of Yili Group from the Group; and
- (ii) the Group agreed to sell no less than 70% of its annual raw milk production to Yili Group on the terms and subject to the conditions of the Raw Milk Purchase and Sale Framework Agreement. Yili also agreed to buy all of the remaining 30% of the Group's raw milk production volume so long as the Group is willing and able to supply raw milk to Yili.

Pricing guidelines

The minimum price and terms of raw milk to be supplied by the Group to Yili Group shall not be lower than the price of and comparable to the terms of raw milk to be supplied to Yili by dairy farms of a similar scale located in the same or nearby geographical location as the Group, or in the absence of such dairy farms, by similar dairy farms in other regions and/or shall be negotiated on an arm's length basis between both parties based on the type, quality, purchase volume and historical transaction price of raw milk. The purchase price of raw milk shall be determined and adjusted based on market conditions and seasonal factors (for example, the quality grade of raw milk may vary due to the weather conditions in different seasons). As agreed between both parties, the final purchase price of raw milk shall vary depending on the quality grade. In particular, the purchase price shall be no lower than the market average price with adjustments based on the quality grade of the milk. The market reference price refers to the average raw milk price, excluding the delivery fee and quality adjustments, of the preceding month of the top five dairy farms (the "**Top Five Dairy Farms**") in the same region as the Group's dairy farms which supply raw milk to Yili Group ("**Base Milk Prices**") on a month-to-month basis in terms of the quantity of raw milk supply. The quality grade is determined with reference to physical and chemical specifications, including among others, the fat and protein content, color, taste, smell, texture, impurity level, bacteria content, and somatic cell count. In addition, the quality of raw milk supplied by the Group must satisfy the standards set by the government and the requirements of Yili Group.

Historical amounts

The transaction amounts under the Existing Raw Milk Purchase and Sale Framework Agreement for the two years ended December 31, 2021 and 2022 amounted to approximately RMB8,756.7 million and RMB10,485.1 million, respectively. The annual caps under the Existing Raw Milk Purchase and Sale Framework Agreement for the two years ended December 31, 2021 and 2022 are RMB10,100 million and RMB12,500 million, respectively, representing approximately 86.7% and 83.9% of the total annual caps in 2021 and 2022, respectively.

Proposed annual caps and basis of determination

The annual caps under the Raw Milk Purchase and Sale Framework Agreement for the three years ending December 31, 2024, 2025 and 2026 are as follows:

	Year ending December 31,		
2024	2025	2026	
<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	
19,900	22,400	24,000	

In determining the aforementioned annual caps, the Directors considered the following:

- (i) the historical and prevailing market price for raw milk, and potential fluctuations in the market price for raw milk in the future. In particular, the Board noted that the average unit price of raw milk increased slightly in 2021 and decreased slightly in 2022 due to the decline in demand for dairy products as affected by the pandemic. As the impact of the pandemic continues to ease in 2023, the Board expects that the unit price of raw milk would regain its growth momentum, and the average unit price of raw milk would increase moderately from 2023 to 2026;
- (ii) the historical transaction volume of raw milk purchased by Yili Group from the Group during the two years ended December 31, 2022. In particular, the historical transaction amounts of raw milk sold by the Group to Yili Group for the two years ended December 31, 2022 amounted to approximately 91.8% and 96.6% of the Group's total revenue from raw milk business for the corresponding year. Such large amount of sales of raw milk to Yili Group was primarily attributable to the deepened and long-standing collaboration between the Group and Yili Group, which is expected to continue for the three years ending December 31, 2026;
- (iii) the historical average milk yield per milkable cow (excluding Jerseys) of the Group for the years ended December 31, 2021 and 2022 which amounted to 10.9 tons and 11.4 tons, respectively. Specifically, the Group has been applying genetic testing and advanced breeding technologies to improve the breed of the Group's milkable cow over the past years, which promoted a steady increase of average milk yield with the expansion of the proportion of high-yield dairy cows and its strict and excellent management, etc., thus it is expected that the average milk yield per milkable cow of the Group will see a steady growth, and hence it is expected that the raw milk yield will continue to grow steadily in the coming years;
- (iv) the anticipated significant growth in the production of raw milk of the Group for the three years ending December 31, 2024, 2025 and 2026, having taken into account the significant increase in the Group's newly constructed dairy farms to be put into production in succession, and the steady growth of the number of milkable cows; and
- (v) the possible sustained growth of the PRC dairy industry.

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

This purchase and sale arrangement is an indication of Yili's reliance on the Group's continuous supply of premium raw milk, which ensures its own operation and future growth with high quality and stable source of raw milk. On the other hand, Yili is one of the dominant dairy conglomerates in the PRC and a long-term purchase and sale arrangement with Yili ensures a stable demand of the Group's raw milk, which provides a stable and sustainable guarantee to the Group's business growth and future strategic and operational planning.

In light of the above, 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 Raw Milk Purchase and Sale Framework Agreement and the transactions contemplated thereunder are 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.

3. THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

On September 28, 2021, the Company entered into the Existing Financial Services Framework Agreement with Yili Finance Company in respect of the provision of a range of financial services by Yili Finance Company to the Group, details of which are set out in the announcement of the Company dated September 28, 2021. As the Existing Financial Services Framework Agreement will expire on December 31, 2023 and the Group expected to continue to conduct the transactions thereunder upon the expiry of such agreement, the Company intends to renew the Financial Services Framework Agreement with Yili Finance Company.

The principal terms of the Financial Services Framework Agreement are set out below:

Date

April 24, 2023

Parties

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

Term

Unless terminated earlier in accordance with the terms of the Financial Services Framework Agreement, the Financial Services Framework Agreement shall be effective from January 1, 2024 to December 31, 2026.

Scope of services

Yili Finance Company shall provide the following financial services to the Group:

- (i) deposit services, under which Yili Finance Company shall accept deposits from the Group of up to a maximum daily balance of deposits (including the interest accrued thereon) not exceeding RMB1,500 million (the “**Deposit Services**”);
- (ii) settlement services, including collection, payment or internal settlement services and other settlement services approved by the CBIRC or other competent regulatory authority (the “**Settlement Services**”); and
- (iii) other financial services, including financial and financing consulting services, credit certification and related consulting and agency services, and other services approved by the CBIRC or other competent regulatory authority (the “**Other Financial Services**”).

Pricing guidelines

The interest rates payable by Yili Finance Company and fees payable by the Group under the Financial Services Framework Agreement shall be determined according to the following guidelines:

- (i) the interest rates payable by Yili Finance Company to the Group for the Deposit Services shall not be lower than (a) the benchmark deposit rates prescribed by the PBOC; and (b) deposit rates payable by the major commercial banks in the PRC, including, inter alia, Industrial and Commercial Bank of China, Bank of China, Agricultural Bank of China, Bank of Communications and China Construction Bank, etc.;
- (ii) Yili Finance Company will provide the Settlement Services for a fee which shall not be higher than the fees publicly quoted by the major commercial banks in the PRC for the same type of services; and
- (iii) Yili Finance Company will provide the Other Financial Services at a fee equal to the lower of (i) the fees publicly quoted by the major commercial banks in the PRC for the same type of services; and (ii) the pricing standard prescribed by the PBOC, the CBIRC or other applicable regulatory authorities for the same type of services.

For each of the Deposit Services, the Settlement Services and the Other Financial Services, the Company will obtain quotes from no less than five of major commercial banks in the PRC for comparison and will only engage Yili Finance Company if the terms offered by Yili Finance Company are no less favorable.

Historical amounts

The Group’s maximum daily deposit balance under the Existing Financial Services Framework Agreement for the two years ended December 31, 2021 and 2022 amounted to approximately RMB612.2 million and RMB719.6 million, respectively. The annual cap of the daily deposit balance under the Existing Financial Services Framework Agreement is RMB750 million, representing approximately 81.6% and 95.9% of the total annual caps in 2021 and 2022, respectively.

Proposed annual caps and basis of determination

The maximum daily balance of deposits (including the interest accrued thereon) under the Deposit Services for the period from January 1, 2024 to December 31, 2026 shall not exceed RMB1,500 million.

In arriving at the maximum amount of daily deposit balance (including the interest accrued thereon) under the Deposit Services for the period from January 1, 2024 to December 31, 2026, the Directors considered the following:

- (i) the latest cash and current assets position of the Group. In particular, the Group had (a) bank balances and cash of approximately RMB1,015.3 million and RMB936.4 million; and (b) deposits placed with a related party of approximately RMB612.2 million and RMB515.9 million as at December 31, 2021 and December 31, 2022, respectively, which in aggregate amounted to approximately RMB1,627.4 million and RMB1,452.3 million, respectively. The proposed annual caps of RMB1,500 million represent approximately 92.2% and 103.3% of the Group's bank balances and cash and the deposits placed with a related party as at December 31, 2021 and December 31, 2022, respectively. The utilization rate of the annual cap of the daily deposit balance of the Deposit Services under the Existing Financial Services Framework Agreement increased from approximately 81.6% for 2021 to 95.9% for 2022;
- (ii) the increasing asset and operation scale and the expected amount of cash of the Group available for deposit. Driven by the continued expansion in business size and improvement in operational efficiency of the Group by leveraging its advantages in full industry chain and the advanced management, operation, research and development capability, the Group has recorded significant increase in revenue by approximately 30.3% and 17.6% in 2021 and 2022, respectively, which is expected to strengthen the Group's cash position by generating more operating cashflows. Since the deposit interest rate offered by Yili Finance Company to the Group is similar to or more favorable than those offered by other commercial banks, the Group plans to deposit more funds in Yili Finance Company to improve fund management efficiency and earn similar or more favorable interest income. In particular, the daily operating expenses of SKX will be paid through the account maintained in Yili Finance Company from 2023, which will lead to a higher requirement of deposit balance; and
- (iii) the expected amount of interest income from Yili Finance Company taking into account the interest income that could otherwise be obtained by placing such amount of deposits with other major commercial banks in the PRC. As mentioned above, the deposit interest rate offered by Yili Finance Company to the Group is similar to or more favorable than those offered by other commercial banks, and as such, the Group plans to deposit more funds in Yili Finance Company to improve fund management efficiency and earn similar or more favorable interest income.

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

- (i) The rates on deposits to be offered by Yili Finance Company to the Group under the Deposit Services will be similar to or more favorable than those offered by the major commercial banks in the PRC.
- (ii) The fees for the Settlement Services and Other Financial Services to be provided by Yili Finance Company will not be higher than the fees publicly quoted by the major commercial banks in the PRC for the same type of services.
- (iii) Yili Finance Company is regulated by the PBOC and the CBIRC or other applicable regulatory authorities, and provides its services in accordance with the rules and operational requirements of these regulatory authorities.
- (iv) By depositing majority of the cash that is temporarily not in use by the Group, the Group can earn a higher interest income and thereby maximize the interest income received by the Group and maximize the Shareholders' value at the same time.
- (v) The Group is expected to benefit from Yili Finance Company's better understanding of the operation of the Group, which will facilitate more expedient and efficient services than those rendered by the major commercial banks in the PRC.
- (vi) By entering into the Financial Services Framework Agreement with Yili Finance Company, the Group will be able to centralize its control and management over its financial resources, therefore improve the utilization and efficiency of fund usage and mitigate its operating risks. It can also accelerate the turnover of funds and reduce transaction costs and expenses, thereby further enhancing the amount and efficiency of funds utilization. Meanwhile, the financial services to be provided under the Financial Services Framework Agreement are diversified and can meet the business needs of the Group.

In light of the above, 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 Financial Services Framework Agreement and the transactions contemplated thereunder are 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.

INTERNAL CONTROL MEASURES

The Company has adopted the following internal control measures to regulate the respective transactions to be conducted within the Dairy Products Purchase Framework Agreement, the Raw Milk Purchase and Sale Framework Agreement, and the Financial Services Framework Agreement (“the Agreements”) with respect to the transactions contemplated under the Agreements in order to further safeguard the interests of the Shareholders:

- (i) in respect of the Dairy Products Purchase Framework Agreement, the finance department of the Group reviews the transactions contemplated under the Dairy Products Purchase Framework Agreement on a quarterly basis and issues relevant reports to ensure the transactions have been conducted in accordance with the pricing policies, the terms of the agreement and the annual caps thereunder;
- (ii) in respect of the Raw Milk Purchase and Sale Framework Agreement, the operation management department and finance department of the Group have been reviewing the transactions contemplated under the Raw Milk Purchase and Sale Framework Agreement on a monthly basis and issue relevant reports. In particular, the Group has been conducting monthly review on, among other things, the raw milk prices of Top Five Dairy Farms and prepares the monthly price comparison reports to confirm the reasonableness and accuracy of the base milk prices of the Top Five Dairy Farms as well as the comparability of the Base Milk Prices of the Top Five Dairy Farms to the Base Milk Prices of the Group;
- (iii) in respect of the Financial Services Framework Agreement, the Group would obtain quotations from the major independent third party service providers in the PRC for the same services it will request from Yili before it conducts business with Yili and compare the service fees with those quoted from Yili to ensure that the most favorable terms are obtained. In addition, the transactions will be reported to and approved by the head of the finance department of the Company;
- (iv) in respect of the Financial Services Framework Agreement, the Group has established a finance department, which operates without influence from Yili and Yili Finance Company. The Group has adopted a financial management system to guide and monitor its financial activities. The Group also maintains accounts with external independent banks, and does not share any bank accounts with Yili or Yili Finance Company. Yili and Yili Finance Company cannot control the use of any of the Group’s bank accounts. The Group has an independent tax registration and has paid tax independently pursuant to applicable PRC laws and regulations;
- (v) the Company’s independent non-executive Directors will independently scrutinize the implementation and enforcement of the transactions conducted under the Dairy Products Purchase Framework Agreement, the Raw Milk Purchase and Sale Framework Agreement, and the Financial Services 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 Yili Finance Company, the Company will take appropriate steps to implement the decision of the independent non-executive Directors. Information on the transactions conducted under the Dairy Products Purchase Framework Agreement, the Raw Milk Purchase and Sale Framework Agreement, and the Financial Services Framework Agreement and the views of the independent non-executive Directors on the transactions conducted under the Dairy Products Purchase Framework Agreement, the Raw Milk Purchase and Sale Framework Agreement, and the Financial Services Framework Agreement will be disclosed in the annual reports of the Company;

- (vi) during its annual audit, the Company will engage its auditors to review the connected transactions to ensure that the transactions under the Dairy Products Purchase Framework Agreement, the Raw Milk Purchase and Sale Framework Agreement, and the Financial Services Framework Agreement have been approved by the Board and conducted in accordance with the pricing policies, the terms of such agreement and the annual caps thereunder; and
- (vii) the Company will monitor the continuing connected transactions in accordance with its internal control procedures, in particular to ensure that the Company will monitor the transaction amounts under such framework agreements in a timely manner. The Group's responsible financial person shall promptly report to the Company's chief financial officer or the Board if such transaction amounts 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.

Yili and Yili Finance Company

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.

Yili Finance Company is a company established under the laws of the PRC on January 15, 2014 and is a non-bank financial institution approved by the CBIRC. It is a wholly-owned subsidiary of Yili and principally engaged in the provision of financial services 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. As Yili Finance Company is a subsidiary of Yili, and therefore also a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under each of the Dairy Products Purchase Framework Agreement, the Raw Milk Purchase and Sale Framework Agreement, and the Financial Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. In addition, the Deposit Services under the Financial Services Framework Agreement also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Dairy Products Purchase and Sale Framework Agreement

As one or more of the applicable percentage ratios under the Listing Rules in respect of the Dairy Products Purchase and Sale Framework Agreement exceeds 0.1% but all of the applicable percentage ratios are less than 5%, the transactions contemplated under the Dairy Products 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.

Raw Milk Purchase and Sale Framework Agreement

As one or more of the applicable percentage ratios under the Listing Rules in respect of the Raw Milk Purchase and Sale Framework Agreement exceeds 5%, the transactions contemplated under the Raw Milk Purchase and Sale Framework Agreement are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Financial Services Framework Agreement

In respect of the Deposit Services under the Financial Services Framework Agreement, as one or more of the applicable percentage ratios under the Listing Rules exceeds 5% but is less than 25%, the provision of the Deposit Services by Yili Finance Company to the Group under the Financial Services Framework Agreement constitute a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. The Deposit Services under the Financial Services Framework Agreement also constitute a continuing connected transaction of the Company and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Settlement Services and the Other Financial Services to be provided by Yili Finance Company to the Group under the Financial Services Framework Agreement will be carried out on normal commercial terms or better and the aggregate annual fees to be paid by the Group to Yili Finance Company for each of the three years ending December 31, 2024, 2025 and 2026 are expected to fall below the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules. Accordingly, such transactions are fully exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Both Mr. Zhang Yujun ("**Mr. Zhang**"), 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 ("**Mr. Xu**"), a non-executive Director, who is an assistant to the president of Yili, are deemed to have a material interest in each of the Raw Milk Purchase and Sale Framework Agreement, the Dairy Products Purchase Framework Agreement and the Financial Services Framework Agreement. Therefore, Mr. Zhang and Mr. Xu have abstained from voting on the Board resolutions in relation to the Raw Milk Purchase and Sale Framework Agreement, the Dairy Products Purchase Framework Agreement and the Financial Services 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 Raw Milk Purchase and Sale Framework Agreement, the Dairy Products Purchase Framework Agreement and the Financial Services Framework Agreement and the transactions contemplated thereunder.

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 Raw Milk Purchase and Sale Framework Agreement, the Financial Services Framework Agreement and the transactions contemplated thereunder are 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 Raw Milk Purchase and Sale Framework Agreement, the Financial Services Framework Agreement and the transactions contemplated thereunder.

The AGM will be held for the Independent Shareholders to consider and, if thought fit, passing the ordinary resolutions to approve, among other matters, the Raw Milk Purchase and Sale Framework Agreement, the Financial Services Framework Agreement and the transactions contemplated thereunder.

A circular containing, among other things, (i) further information on the renewal of the Raw Milk Purchase and Sale Framework Agreement, and the renewal of the Financial Services Framework Agreement; (ii) a letter from the Independent Board Committee containing its opinion and recommendations to the Independent Shareholders in respect of the renewal of the Raw Milk Purchase and Sale Framework Agreement, and the renewal of the Financial Services Framework Agreement; (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 AGM, is expected to be despatched to the Shareholders within 15 business days after the date of this announcement.

DEFINITIONS

“AGM”	the annual general meeting of the Company to be held on May 17, 2023
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CBIRC”	The China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“China” or “PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macao Special Administrative Region and Taiwan
“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
“Dairy Products Purchase Framework Agreement”	the dairy products purchase framework agreement renewed between Yili and the Company on April 24, 2023 in respect of the provision of dairy products by Yili to the Group
“Director(s)”	the director(s) of the Company
“Existing Dairy Products Purchase Framework Agreement”	the dairy products purchase framework agreement entered into between Yili and the Company on May 17, 2021 in respect of the provision of dairy products by Yili to the Group
“Existing Financial Services Framework Agreement”	the financial services framework agreement entered into between Yili Finance Company and the Company on September 28, 2021 in respect of the provision of a range of financial services by Yili Finance Company to the Group
“Existing Raw Milk Purchase and Sale Framework Agreement”	the raw milk purchase and sale framework agreement entered into between Yili and the Company on May 17, 2021 in respect of the provision of long-term supply of raw milk by the Group to Yili Group
“Financial Services Framework Agreement”	the financial services framework agreement renewed between Yili Finance Company and the Company on April 24, 2023 in respect of the provision of a range of financial services by Yili Finance Company to the Group
“Group”	the Company, its subsidiaries and its associates
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“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 Raw Milk Purchase and Sale Framework Agreement, the Financial Services Framework 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on the Raw Milk Purchase and Sale Framework Agreement, the Financial Services Framework 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 AGM to approve, the Raw Milk Purchase and Sale Framework Agreement, the Financial Services Framework Agreement and the transactions contemplated thereunder
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PBOC”	The People’s Bank of China (中國人民銀行)
“Prospectus”	the prospectus of the Company dated June 7, 2021
“Raw Milk Purchase and Sale Framework Agreement”	the raw milk purchase and sale framework agreement renewed between Yili and the Company on April 24, 2023 in respect of the provision of long-term supply of raw milk by the Group to Yili Group
“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)
“SKX”	Inner Mongolia Saikexing Reproductive Biotechnology (Group) Co., Ltd (內蒙古賽科星繁育生物技术(集團)股份有限公司), a company established under the laws of the PRC and whose shares are listed on the National Equities Exchange and Quotations (stock code: 834179) which has been our subsidiary since January 8, 2020
“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
“Yili Finance Company”	Yili Finance Company Limited* (伊利財務有限公司), a company established under the laws of the PRC and a wholly-owned subsidiary of Yili

“Yili Group”	Yili, its subsidiaries and associates
“2022 August 29 Announcement”	announcement of the Company dated August 29, 2022 on the revision of annual caps of the Existing Dairy Products Purchase Framework Agreement
“%”	per cent.

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

Hong Kong, April 24, 2023

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.*