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AUSNUTRIA DAIRY CORPORATION LTD

澳優乳業股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

CONTINUING CONNECTED TRANSACTIONS

THE PROCESSING SERVICE FRAMEWORK AGREEMENT

On 23 September 2022, the Company entered into the Processing Service Framework Agreement with Yili Industrial, a controlling Shareholder of the Company, pursuant to which the Group agreed to provide processing services in respect of the production of milk powder (other than infant formulas) and related products for Yili Industrial Group from time to time during the terms of the Processing Service Framework Agreement.

THE SUPPLY FRAMEWORK AGREEMENT

On 23 September 2022, the Company entered into the Supply Framework Agreement with Yili Industrial, pursuant to which Yili Industrial Group agreed to purchase the goat milk powder and related products from the Group from time to time during the terms of the Supply Framework Agreement.

THE PROCUREMENT FRAMEWORK AGREEMENT

On 23 September 2022, the Company entered into the Procurement Framework Agreement with Yili Industrial, pursuant to which the Group agreed to purchase milk base powder and related ingredients from Yili Industrial Group from time to time during the terms of the Procurement Framework Agreement.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Yili Industrial is a controlling Shareholder holding 1,070,113,149 Shares, representing 59.17% of the issued Shares. Accordingly, Yili Industrial is a connected person of the Company under the Listing Rules.

As such, the entering into of the Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the annual cap under each of the Processing Service Framework Agreement, the Supply Framework Agreement and Procurement Framework Agreement exceeds 0.1% but less than 5%, the Agreements are subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

PRINCIPAL TERMS OF THE AGREEMENTS

1. Processing Service Framework Agreement

On 23 September 2022, the Company entered into the Processing Service Framework Agreement with Yili Industrial, a controlling Shareholder of the Company, pursuant to which the Group agreed to provide processing services in respect of the production of milk powder (other than infant formulas) and related products for Yili Industrial Group from time to time during the terms of the Processing Service Framework Agreement. Principal terms of the Processing Service Framework Agreement are summarised below.

Date: 23 September 2022

Parties: The Company as service provider

Yili Industrial as customer

Duration: From the date of execution of the Processing Service Framework Agreement to 31 December 2024

Nature of Transaction: Yili Industrial Group shall deliver to the Group necessary ingredients and formula for processing services. The Group shall provide processing services to Yili Industrial Group in respect of the production of milk powder (other than infant formulas) and related products for Yili Industrial Group.

Pricing Terms: The processing fee for the provision of processing services by the Group under the Processing Service Framework Agreement will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms. The processing fee shall be determined on a cost plus basis with reference to general industry standard, raw material cost and processing cost. The processing fee may be adjusted based on amicable negotiations between the Group and Yili Industrial Group.

Payment Terms: Payment shall be made by Yili Industrial Group to the Group in accordance with the terms in each individual processing agreement and in any event within 60 natural days.

Annual Cap

The annual cap in respect of the transactions contemplated under the Processing Service Framework Agreement for each of the financial year ending 31 December 2022, 31 December 2023 and 31 December 2024 is RMB100 million, RMB150 million and RMB200 million, respectively.

The above annual cap was determined after taking into account the (i) future demand of milk powder (other than infant formulas) and related products to be produced during the term of the Processing Service Framework Agreement; (ii) pricing terms; and (iii) future production capacity of the Group.

2. Supply Framework Agreement

On 23 September 2022, the Company entered into the Supply Framework Agreement with Yili Industrial, pursuant to which Yili Industrial Group agreed to purchase the goat milk powder and related products from the Group from time to time during the terms of the Supply Framework Agreement. Principal terms of the Supply Framework Agreement are summarised below.

Date:	23 September 2022
Parties:	The Company as seller Yili Industrial as purchaser
Duration:	From the date of execution of the Supply Framework Agreement to 31 December 2024
Nature of Transaction:	Sale and purchase of goat milk powder and related products. The exact volume of goat milk powder and related products to be supplied by the Group to Yili Industrial Group will be provided in individual purchase orders.
Pricing Terms:	The unit price of the goat milk powder and related products will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms or better and will be specified in individual purchase order with reference to (i) the price of products of same or substantially similar quality at which the Group supplies to its other customers in the same region; (ii) the relevant cost such as raw material cost and production cost; and (iii) the market price of such products from time to time.
Payment Terms:	Payment shall be made by Yili Industrial Group to the Group in accordance with the terms in each individual purchase order and in any event within 60 natural days.

Annual Cap

The annual cap in respect of the sale of goat milk powder and related products by the Group to Yili Industrial Group under the Supply Framework Agreement for each of the financial year ending 31 December 2022, 31 December 2023 and 31 December 2024 is RMB100 million, RMB150 million and RMB200 million, respectively.

The annual cap was determined after taking into account the (i) expected demand of goat milk powder and related products by Yili Industrial Group during the term of the Supply Framework Agreement; and (ii) unit price of the goat milk powder and related products to be produced.

3. Procurement Framework Agreement

On 23 September 2022, the Company entered into the Procurement Framework Agreement with Yili Industrial, pursuant to which the Group agreed to purchase milk base powder and related ingredients from Yili Industrial Group from time to time during the terms of the Procurement Framework Agreement. Principal terms of the Procurement Framework Agreement are summarised below.

Date: 23 September 2022

Parties: Yili Industrial as seller

The Company as purchaser

Duration: From the date of execution of the Procurement Framework Agreement to 31 December 2024

Nature of Transaction: Sale and purchase of milk base powder and related ingredients. The exact volume of milk base powder and related ingredients supplied by Yili Industrial Group to the Group will be provided in individual purchase orders.

Pricing Terms: The terms of individual purchase order for the milk base powder and related ingredients will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms or better. The specific pricing and other terms (including specification) for each individual transaction shall comply with the terms as set out under each individual procurement agreement. The prices and charges payable to Yili Industrial Group for the purchase of the milk base powder and related ingredients shall be determined with reference to at the time when the relevant purchase orders were made. It is intended that, where appropriate, such prices and charges shall then be fixed and applicable to the subsequent purchase order for a period of six months from the date of the relevant purchase order.

Payment Terms: Payment shall be made by the Group to Yili Industrial Group in accordance with the terms in each individual purchase order and in any event within 60 natural days.

Annual Cap

The annual cap in respect of the purchase of milk base powder and related ingredients by the Group from Yili Industrial Group under the Procurement Framework Agreement for each of the financial year ending 31 December 2022, 31 December 2023 and 31 December 2024 is RMB200 million, RMB250 million and RMB300 million respectively.

The annual cap was determined after taking into account the (i) pricing terms for the purchase of the milk base powder and related ingredients; and (ii) expected purchase amounts of the milk base powder and related ingredients by the Group during the term of the Procurement Framework Agreement.

INTERNAL CONTROL

The Company has implemented internal control procedures and policies to monitor connected transactions and to ensure that all connected transactions are entered into in accordance with pricing policies and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The Group has closely observed the market conditions and monitored the prevailing market prices or market rates, including the pricings of transactions between the Group and independent third parties in respect of similar services or materials. Before entering into any connected transactions, the procurement and operation department of the Group will compare quotations for similar transactions with independent third parties for similar services or materials. Accordingly, the Company is able to ensure that the pricing terms under the Agreements are on normal commercial terms and no less favourable than those available from independent third parties.

The Company will closely monitor the connected transactions to ensure that they are conducted in accordance with the terms of the relevant connected transaction agreements. In the event that the annual caps of any of the Agreements are about to be exceeded, the Company will revise the annual caps in accordance with the relevant Listing Rules requirements..

In addition, the independent non-executive Directors will conduct an annual review of the transactions contemplated under the Agreements. The Company's external auditors will also review the transactions as contemplated under the Agreements annually to check and confirm, among others, whether the pricing terms have been adhered to and whether the relevant annual caps have been exceeded.

The Directors consider that the Company has established sufficient internal control measures to ensure the transactions under the Agreements are conducted in the usual and ordinary course of business of the Group, fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE COMPANY AND YILI INDUSTRIAL

The Group is principally engaged in (i) the dairy industry with activities ranging from research and development, 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) research and development, production, marketing and distribution of nutrition products to customers principally located in the PRC and Australia.

Yili Industrial is a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange in the PRC (stock code: 600887). Yili Industrial is a dairy product enterprise with the largest scale and most comprehensive product categories in the PRC. It is principally engaging in the processing, manufacturing and sales of various dairy products and healthy beverages. It has several major product series, including liquid milk, milk beverages, milk powder, yogurt, frozen beverages, cheese, milk fat and packaged drinking water.

REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENTS

The Group is one of the major infant formula players in the PRC, particularly in the goat milk sector which it has secured certain volume of goat milk related resources over the years of developments and with production facilities located in various major dairy countries. The Yili Industrial Group is the largest dairy enterprise in the PRC with the most comprehensive product portfolio. The Company believes that the entering into the Agreements will better leverage on both parties strength, particularly in the production capability as well as the resources that they have established in different counties over the years.

The Directors (including the independent non-executive Directors but excluding Mr. Sun Donghong, Mr. Zhang Zhanqiang and Mr. Zhang Lingqi) are of the view that the Agreements and the transactions contemplated thereunder would enable the Group to achieve greater synergies between the Group and the Yili Industrial Group.

The Directors (including the independent non-executive Directors but excluding Mr. Sun Donghong, Mr. Zhang Zhanqiang and Mr. Zhang Lingqi) are of the view that the Agreements and the transactions contemplated thereunder are conducted on arm's length basis and on normal commercial terms in the ordinary and usual course of business of the Company and the terms of the Agreements (including the annual caps) are fair and reasonable, and the Agreements and the transactions contemplated thereunder are in the interests of the Company and its Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Yili Industrial is a controlling Shareholder holding 1,070,113,149 Shares, representing 59.17% of the issued Shares. Accordingly, Yili Industrial is a connected person of the Company under the Listing Rules.

As such, the entering into of the Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the annual cap under each of the Processing Service Framework Agreement, the Supply Framework Agreement and Procurement Framework Agreement exceeds 0.1% but less than 5%, the Agreements are subject to the reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Sun Donghong, Mr. Zhang Zhanqiang and Mr. Zhang Lingqi are Directors nominated by Yili Industrial and therefore are considered to have a material interest in the Agreements and the transactions contemplated thereunder. As such, each of Mr. Sun Donghong, Mr. Zhang Zhanqiang and Mr. Zhang Lingqi has abstained from voting on the Board resolution(s) in relation to the approval of the Agreements and the transactions contemplated thereunder.

DEFINITIONS

Unless otherwise specified, the following terms have the following meanings in this announcement:

“Agreements”	collectively, the Processing Service Framework Agreement, the Supply Framework Agreement and the Procurement Framework Agreement
“Board”	the board of Directors of the Company

“Company”	Ausnutria Dairy Corporation 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: 1717)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region
“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, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Processing Service Framework Agreement”	the framework agreement dated 23 September 2022 entered into between the Company and Yili Industrial in relation to the processing services to be provided by the Group in respect of the production of milk powder (other than infant formulas) and related products to Yili Industrial Group
“Procurement Framework Agreement”	the framework agreement dated 23 September 2022 entered into between the Company and Yili Industrial in respect of the procurement of the milk powder and related ingredients from Yili Industrial Group
“RMB”	means Renminbi, the lawful currency of the PRC;
“Shareholder(s)”	the holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of par value of HK\$0.10 each in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supply Framework Agreement”	the framework agreement dated 23 September 2022 entered into between the Company and Yili Industrial in respect of the sale of the goat milk powder and related products to Yili Industrial Group

“Yili Industrial” Inner Mongolia Yili Industrial Group Co., Ltd.* (內蒙古伊利實業集團股份有限公司) , a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange of the PRC (stock code: 600887)

“Yili Industrial Group” Yili Industrial and its subsidiaries (for the purpose of the Agreements, excluding the Group)

* For identification purpose only

By order of the Board
Ausnutria Dairy Corporation Ltd
Yan Weibin
Chairman

The PRC, 23 September 2022

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Yan Weibin (Chairman), Mr. Bartle van der Meer (Chief Executive Officer) and Ms. Ng Siu Hung; three non-executive Directors, namely Mr. Sun Donghong (Vice-Chairman), Mr. Zhang Zhanqiang and Mr. Zhang Lingqi; and three independent non-executive Directors, namely Mr. Ma Ji, Mr. Ren Fazheng and Mr. Aidan Maurice Coleman.