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Yashili International Holdings Ltd

雅士利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1230)

ADOPTION OF PHANTOM SHARE INCENTIVE SCHEME AND INITIAL GRANT UNDER THE SCHEME

BACKGROUND

On 15 July 2020, the Board resolved to adopt the Phantom Share Incentive Scheme for certain key personnel of the Company, which has become effective on the same day.

The Scheme does not involve the grant of options over new shares or other new securities that may be issued by the Company (or any of its subsidiaries) and therefore, it does not fall within the ambit of, and is not subject to, the requirements under Chapter 17 of the Listing Rules.

CONTENTS OF THE SCHEME

A summary of principal terms of the Scheme is set out below:

Incentive Instrument Phantom Shares. Each Phantom Share entitles its holder to receive the corresponding Incentive Proceeds under the Scheme subject to the Vest Conditions and Vest Period Arrangements (as defined below), and the Company will pay the Incentive Proceeds in cash subject to the Realization Conditions and Realization Period Arrangements (as defined below) under the Scheme. The Incentive Recipients do not own any Shares, nor enjoy voting rights or allotment rights of the Shares. Phantom Shares cannot be transferred or used as security or for repayment of debts.

Effective Date and Effective Period The Scheme shall become effective on the day on which it is adopted by the Board (i.e. 15 July 2020). The Scheme shall be valid for a period of 10 years commencing from the effective date of the Scheme (the “**Effective Period**”). The Board could terminate the Scheme before the expiry of the Effective Period if the Board considers it necessary.

Incentive Recipients	The Incentive Recipients include key management team, middle and senior management personnel and key personnel who have a material impact on the operating performance and sustainable development of the Company.
Number of Phantom Shares to Be Granted	The total number of Phantom Shares to be granted under the Scheme during the Effective Period shall not exceed 10% of the total issued share capital of the Company on the day on which the Scheme was adopted (i.e. 15 July 2020).
Grant Price	Incentive Recipients do not need to pay for the Phantom Shares to be granted to them under the Scheme.
Grant Conditions	The Company may grant Phantom Shares to Incentive Recipients if none of the following circumstances has occurred to the Company: (i) a certified public accountant has issued a negative opinion or was unable to express an opinion on the audit report regarding the Company’s financial statements for the most recent fiscal year; and (ii) relevant laws and regulations prohibit the implementation of the Scheme.
Vest Period Arrangement	The Phantom Shares granted to and accepted by the Incentive Recipients under the Scheme shall vest 12 months after the Grant Day (the “ Vest Period Arrangement ”) provided that the Company and the Incentive Recipients satisfy the Vest Conditions. The Incentive Proceeds in respect of the Phantom Shares granted to and accepted by the Incentive Recipients shall not be realized before such Phantom Shares have vested.
Realization Period Arrangement	The Incentive Proceeds in respect of the Phantom Shares granted to and accepted by the Incentive Recipients under the Scheme shall be realized in three years (the “ Realization Period Arrangement ”) provided that the Company and the Incentive Recipients satisfy the Realization Conditions:

Period	Date	Proportion of Incentive Proceeds to Be Realized
The First Realization Phase	Vest Day	30%
The Second Realization Phase	12 months after the Vest Day	30%
The Third Realization Phase	24 months after the Vest Day	40%

Vest Conditions

The Phantom Shares held by the Incentive Recipients shall vest according to the Vest Period Arrangement provided that the Company and the Incentive Recipients satisfy the following conditions (the “**Vest Conditions**”):

- 1) None of the following circumstances has occurred to the Company: (i) a certified public accountant has issued a negative opinion or was unable to express an opinion on the audit report regarding the Company’s financial statements for the most recent fiscal year; and (ii) relevant laws and regulations prohibit the implementation of the Scheme.
- 2) None of the following circumstances has occurred to the Incentive Recipients: (i) the Incentive Recipient was publicly censured or declared as an improper person by the Stock Exchange during the past three years; and (ii) administrative penalties were imposed on the Incentive Recipient by regulatory authorities for material violations of laws and regulations during the past three years.
- 3) The Company satisfies the following three performance conditions:

Performance Indicators	Weight	Base Threshold
Achievement Rate of Revenue	40%	90%
Achievement Rate of Responsible Profit	40%	90%
Achievement Rate of Free Cash Flow	20%	90%

The Phantom Shares shall only vest if all three performance indicators meet the respective base threshold. Upon meeting the respective base threshold by each performance indicator, the vesting ratio shall be linearly correlated to the achievement rate of the corresponding performance indicator. This means the vesting ratio in respect of each performance indicator shall be equivalent to the corresponding achievement rate of the relevant performance indicator, subject to a maximum vesting ratio of 100%.

Realization Conditions

The Incentive Proceeds in respect of the Phantom Shares held by the Incentive Recipients shall be realized according to the Realization Period Arrangement provided that the Company and the Incentive Recipients satisfy the following conditions (the “**Realization Conditions**”):

- 1) None of the following circumstances has occurred to the Company: (i) a certified public accountant has issued a negative opinion or was unable to express an opinion on the audit report regarding the Company’s financial statements for the most recent fiscal year; and (ii) relevant laws and regulations prohibit the implementation of the Scheme.
- 2) None of the following circumstances has occurred to the Incentive Recipients: (i) the Incentive Recipient was publicly censured or declared as an improper person by the Stock Exchange during the past three years; (ii) administrative penalties were imposed on the Incentive Recipient by regulatory authorities for material violations of laws and regulations during the past three years; and (iii) the Incentive Recipient’s individual performance assessment result for the previous year was C or D.

Incentive Proceeds

The amount of Incentive Proceeds in respect of the Phantom Shares under the Scheme is determined with reference to the number of vested Phantom Shares. The number of Phantom Shares which shall vest is subject to the achievement of performance indicators of the Company in the preceding fiscal year of the Vest Day.

- 1) If the Market Price of the Shares on the Vest Day is lower than or equivalent to the Market Price of the Shares on the Grant Day, the Incentive Proceeds to be received by Incentive Recipients shall be the Market Price of the Shares on the Grant Day multiplied by the number of vested Phantom Shares held by such Incentive Recipients.
- 2) If the Market Price of the Shares on the Vest Day is higher than the Market Price of the Shares on the Grant Day, the Incentive Proceeds to be received by Incentive Recipients shall be the lower of: (i) the Market Price of the Shares on the Vest Day multiplied by the number of vested Phantom Shares held by such Incentive Recipients; and (ii) the sum of (a) the actual Responsible Profit in the preceding fiscal year of the Vest Day minus the target Responsible Profit in the same year (where the actual Responsible Profit is lower than the target Responsible Profit in such year, (a) shall be 0), and (b) the Market Price of the Shares on the Grant Day multiplied by the number of vested Phantom Shares held by such Incentive Recipients.

REASONS FOR ADOPTING THE SCHEME

The Board is of the view that the Scheme will enable the Company to: (i) establish a benefit sharing and restraint mechanism between the Shareholders and the Incentive Recipients to achieve an all-win situation for the Company, the Shareholders and the Incentive Recipients, and guide employees of the Company to focus on long-term targets; (ii) strengthen the competitiveness and diversity of the compensation system of the Company; attract, motivate and retain key personnel of the Company, and prevent loss of talent to achieve sustainable development of the Company; (iii) continuously stimulate the employees of the Company by aligning the performance of the Company with interest of the employees, and improve the value of the incentives received by the employees while improving the overall value of the Company; and (iv) align the Scheme with the future development strategies of the Company by reasonably arranging the schedule for granting, vesting and realization, and facilitate the achievement of the medium to long-term strategic targets of the Company through the performance-linked mechanism.

INITIAL GRANT UNDER THE SCHEME

On 15 July 2020, the Board approved the grant of 59,660,700 Phantom Shares under the Scheme, the details of which are set out as follows:

Grant Date: 15 July 2020

59,660,700 Phantom Shares, representing approximately 1.26% of the total issued shares of the Company as of the date of this announcement, are granted to certain Incentive Recipients. The Incentive Recipients include a Director, key management team, middle and senior management personnel and key personnel of the Company who have a material impact on the operating performance and sustainable development of the Company.

Among the Phantom Shares granted above, 8,949,100 Phantom Shares were granted to a Director, details of which are as follows:

Name of Director	Position(s) held with the Company	Number of Phantom Shares granted
Yan Zhiyuan	Executive Director	8,949,100

The Phantom Shares granted under the Scheme shall vest 12 months after the Grant Day, subject to the Vest Conditions.

The grant of Phantom Shares to the Director forms part of the remuneration package of the Director under his letter of appointment with the Company and is accordingly exempted from the reporting, announcement and independent shareholders' approval requirements under Rules 14A.73(6) and 14A.95 of the Listing Rules.

DEFINITIONS

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

“Board”	the board of Directors of the Company
“Company”	Yashili International Holdings Ltd, a company listed on the Main Board of the Stock Exchange (stock code: 1230)
“Director(s)”	the directors of the Company
“Grant Day”	the day on which the Company grants the Phantom Shares to the relevant Incentive Recipient
“Incentive Proceeds”	the proceeds that the relevant Incentive Recipient is entitled to receive under the Scheme
“Incentive Recipients”	the parties who are proposed to be granted the Phantom Shares under the Scheme
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Market Price”	the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the 30 trading days immediately preceding the relevant date (inclusive of the relevant date)
“Phantom Share(s)”	the phantom shares to be issued to the Incentive Recipients under the Phantom Share Incentive Scheme
“Responsible Profit”	an internal performance indicator of the Company as set by the Board for the purpose of evaluating the performance of the Company and its management team
“Scheme” or “Phantom Share Incentive Scheme”	the phantom share incentive scheme of the Company as adopted by the Board on 15 July 2020
“Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Vest Day” the day on which the Phantom Shares shall vest

“%” per cent.

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

Hong Kong, 16 July 2020

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