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MODERN FARMING
现代牧业

China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1117)

**CONTINUING CONNECTED TRANSACTION
PROCUREMENT AND SALE AGREEMENT WITH SHANXI YASHILI
AND OUSHI MENGNIU**

On September 23, 2024 (after trading hours), Modern Farming Saibei, an indirect non-wholly owned subsidiary of the Company, entered into the Procurement and Sale Agreement with the Purchasers, pursuant to which the Purchasers agree to purchase and Modern Farming Saibei agrees to supply the Products for a term commencing from the date of the Procurement and Sale Agreement to December 31, 2025.

As at the date of this announcement, the Purchasers are indirect non-wholly owned subsidiaries of Mengniu, a substantial shareholder and connected person of the Company. Hence, the Purchasers are connected persons of the Company. Accordingly, the transactions contemplated under the Procurement and Sale Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest percentage ratio calculated in accordance with the Listing Rules in respect of the transactions contemplated under the Procurement and Sale Agreement exceeds 0.1% but is less than 5%, the entering into of the Procurement and Sale Agreement and the transactions contemplated thereunder are subject to the reporting, annual review and announcement requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

On September 23, 2024 (after trading hours), Modern Farming Saibei, an indirect non-wholly owned subsidiary of the Company, entered into the Procurement and Sale Agreement with the Purchasers, pursuant to which the Purchasers agree to purchase and Modern Farming Saibei agrees to supply the Products for a term commencing from the date of the Procurement and Sale Agreement to December 31, 2025.

PROCUREMENT AND SALE AGREEMENT

The principal terms of the Procurement and Sale Agreement are as follows:

- Date:** September 23, 2024
- Parties:** (1) Modern Farming Saibei; and
(2) the Purchasers.
- Duration:** For a term commencing from the date of the Procurement and Sale Agreement to December 31, 2025.
- Subject matter:** The Purchasers agree to purchase and Modern Farming Saibei agrees to supply the Products which shall meet the quality requirements set out below.
- Quality requirements:** The Products delivered by the Purchasers shall satisfy (i) the quality standards agreed by the Parties; and (ii) the relevant national standards and industry standards regarding the Products.
- Pricing policy:** The price payable by the Purchasers to Modern Farming Saibei will be determined through arm's length negotiation between the parties in the ordinary course of business in accordance with normal commercial terms or better terms, with reference to (i) the prices of the same type of Products supplied by Modern Farming Saibei to other customers in the same region; (ii) the costs of raw materials and other relevant costs of production from time to time, including but not limited to the transportation costs, processing fees, labour costs, packaging costs and various applicable taxes; and (iii) the market price of such Products market price from time to time, and confirmed in writing.
- Annual Caps:** RMB10 million from the date of the Procurement and Sale Agreement to December 31, 2024; and
RMB100 million for the financial year ending December 31, 2025.

INTERNAL CONTROL MEASURES

The Group's internal compliance department will continuously monitor the transactions contemplated under the Procurement and Sale Agreement to ensure that they will be conducted in accordance with the terms of the Procurement and Sale Agreement and in compliance with Chapter 14A of the Listing Rules; and in particular, the internal compliance department will monitor the market price of the Products periodically for adjustment and discussion of pricing with the Purchasers under the Procurement and Sale Agreement and monitor relevant market information, published reports and guidance to ensure that the price and terms of supplying the Products under the Procurement and Sale Agreement will be fair and reasonable, no less favorable than those offered to other independent customers and determined in accordance with the agreed pricing policy, and will submit a report of its findings to the management and the Audit Committee of the Company semi-annually. Modern Farming Saibei will also review the development within the industry and market standards of supplying the Products from time to time to ensure that the supply of Products to the Purchasers are in line with the industry and market standards and the requirements of the Purchaser, and are capable of achieving the expected benefits.

The Group's external auditors and independent non-executive Directors will also conduct an annual review and provide confirmation in respect of the transactions under the Procurement and Sale Agreement in accordance with the requirements under Chapter 14A of the Listing Rules.

ANNUAL CAP AND BASIS OF DETERMINATION

As milk powder production and related businesses are tentative new ventures for the Group's development and expansion, there has been no historical transaction amount in relation to the procurement and supply of the Products between the Purchasers and Modern Farming Saibei.

The Annual Caps in respect of the procurement and supply of the Products under the Procurement and Sale Agreement will be RMB10 million from the date of the Procurement and Sale Agreement to December 31, 2024 and RMB100 million for the financial year ending December 31, 2025. The Annual Caps were determined based on (i) the expected price of the Products based on the prevailing price of raw milk and processing fees expected to be incurred; (ii) the expected demand from the Purchasers for the Products; (iii) the Group's expected stock level of the Products available for fulfilling the Purchasers' order, considering the Group's expansion plan in the milk powder industry, expected additional raw milk surplus in the coming year, production capacity and expected internal usage of the Products; and (iv) a 10% buffer for potential inflation and increase in demand for the Products due to market conditions.

REASONS FOR AND BENEFITS OF ENTERING INTO THE PROCUREMENT AND SALE AGREEMENT

As a leading dairy farming operator and raw milk producer in the PRC, the Group is affected by the weak demand for dairy products from consumers in the PRC under the current market condition, which results in an oversupply of raw milk in the domestic market. The sales of the Group's stock in the form of milk powder not only alleviates the situation of raw milk oversupply, it will also provide the Group with an additional source of revenue and the opportunity to further dive into the business of milk powder.

The Group believes that through the cooperation with the Purchasers under the Procurement and Sale Agreement, the Group will be able to (i) secure stable demand for the Group's Products in the new milk powder business; (ii) leverage on the reputation and network of the Purchasers, as one of the leading industry participants in the milk powder industry, to further develop and expand the Group's milk powder business; (iii) ensure the timely payment for the Products to facilitate the normal operations of the Modern Farming Group's business based on the Company's past experience of cooperating with the Purchasers or its affiliates in other areas; and (iv) realizing the Group's cost-orientated strategies and enhance its core competitiveness by utilizing the excess stock of raw milk resulting from the current market condition.

The Directors (including the independent non-executive Directors) consider that the Procurement and Sale Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms thereof (including the proposed annual cap) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

As at the date of this announcement, (i) Mr. Zhao Jiejun, a non-executive Director and the chairman of the Board, is also a vice president and the head of milk sourcing and animal husbandry industry chain business unit of Mengniu Group; (ii) Mr. Zhang Ping, a non-executive Director, is the vice-president and chief financial officer of Mengniu Group; and (iii) Mr. Chen Yiyi, a non-executive Director, is a vice president and head of strategy management of Mengniu Group, and is responsible for the strategic and investment management of Mengniu Group. Accordingly, Mr. Zhao Jiejun, Mr. Zhang Ping and Mr. Chen Yiyi have abstained from voting on the relevant resolutions of the Board approving the Procurement and Sale Agreement. Save as the above, no other director was considered to have a material interest in the transaction and required to abstain from voting.

INFORMATION ON THE PARTIES

(1) The Group

The Group is a leading dairy farming operator and raw milk producer in the PRC. As of June 30, 2024, the Group operated 42 dairy farms in the PRC with approximately 445,000 dairy cows and annualized milk yield of over 2.59 million tons.

(2) Modern Farming Saibei

Modern Farming Saibei is an indirect non-wholly owned subsidiary of the Company and is principally engaged in the production and sale of raw milk in the PRC. As at the date of this announcement, the Company indirectly owns approximately 98.36% of equity interest in Modern Farming, which owns the entire equity interests in Modern Farming Saibei.

(3) The Purchasers

Shanxi Yashili and Oushi Mengniu were both established in the PRC in 2006 and are principally engaged in production and sale of dairy products in the PRC. As at the date of this announcement, Shanxi Yashili and Oushi Mengniu are both indirect non-wholly owned subsidiaries of Mengniu, a substantial shareholder and connected person of the Company.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, the Purchasers are indirect non-wholly owned subsidiaries of Mengniu, a substantial shareholder and connected person of the Company. Hence, the Purchasers are connected persons of the Company. Accordingly, the transactions contemplated under the Procurement and Sale Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest percentage ratio calculated in accordance with the Listing Rules in respect of the transactions contemplated under the Procurement and Sale Agreement exceeds 0.1% but is less than 5%, the entering into of the Procurement and Sale Agreement and the transactions contemplated thereunder are subject to the reporting, annual review and announcement requirements but are exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“Annual Caps”	the annual caps in respect of the Products under the Procurement and Sale Agreement
“Audit Committee”	the audit committee of the Company which currently comprises two independent non-executive Directors, namely Mr. Lee Kong Wai, Conway and Mr. Chow Ming Sang, and one non-executive Director, Mr. Zhang Ping
“Board”	the board of Directors
“Company”	China Modern Dairy Holdings Ltd., a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 1117)
“connected person(s)”, “percentage ratio(s)”, “subsidiary(ies)”, “substantial shareholder(s)”	each has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mengniu”	China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司*), a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 2319), and a substantial shareholder of the Company
“Mengniu Group”	Mengniu and its subsidiaries

“Modern Farming”	Modern Farming (Group) Co., Ltd.* (現代牧業(集團)有限公司), a sino-foreign investment enterprise established in the PRC and an indirect non-wholly owned subsidiary of the Company
“Modern Farming Saibei”	Modern Farming (Saibei) Co., Ltd.* (現代牧業(塞北)有限公司), a company established in the PRC and an indirect non-wholly owned subsidiary of the Company
“Modern Farming Group”	Modern Farming and its subsidiaries
“Oushi Mengniu”	Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd. (內蒙古歐世蒙牛乳製品有限責任公司), an indirect non-wholly owned subsidiary of Mengniu and a connected person of the Company
“Parties”	the Purchasers and Modern Farming Saibei
“PRC”	the People’s Republic of China which, for the purposes of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Procurement and Sale Agreement”	the procurement and sale agreement dated September 23, 2024, entered into between Modern Farming Saibei and the Purchasers in relation to the supply and procurement of the Products, as more particularly described in the section headed “Procurement and Sale Agreement” in this announcement
“Products”	Whole milk powder and skim milk powder
“Purchasers”	Shanxi Yashili and Oushi Mengniu
“RMB”	Renminbi, the lawful currency of the PRC
“Shanxi Yashili”	Shanxi Yashili Dairy Co., Ltd. (山西雅士利乳業有限公司), an indirect non-wholly owned subsidiary of Mengniu and a connected person of the Company
“Shareholders”	shareholders of the Company

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“%”

per cent.

For and on behalf of the Board
China Modern Dairy Holdings Ltd.
Zhao Jiejun
Chairman

* *For identification purpose only*

Hong Kong, September 23, 2024

As of the date of this announcement, the executive Directors are Mr. Sun Yugang and Mr. Zhu Xiaohui, the non-executive Directors are Mr. Zhao Jiejun (Chairman), Mr. Zhang Ping, Mr. Chen Yiyi and Ms. Gan Lu, and the independent non-executive Directors are Mr. Li Shengli, Mr. Lee Kong Wai, Conway and Mr. Chow Ming Sang.