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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
PROCESSING FRAMEWORK AGREEMENT WITH
SHANXI YASHILI AND OUSHI MENGNIU**

On May 8, 2024 (after trading hours), Modern Farming Saibei, an indirect non-wholly owned subsidiary of the Company, entered into the Processing Framework Agreement with the Suppliers, pursuant to which the Suppliers agree to offer processing services for the Products to Modern Farming Saibei for a term commencing from the date of the Processing Framework Agreement to December 31, 2025.

As at the date of this announcement, the Suppliers are indirect non-wholly owned subsidiaries of Mengniu, a substantial shareholder and connected person of the Company. Hence, the Suppliers are connected persons of the Company. Accordingly, the transactions contemplated under the Processing Framework 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 Processing Framework Agreement exceeds 0.1% but is less than 5%, the entering into of the Processing Framework 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 May 8, 2024 (after trading hours), Modern Farming Saibei, an indirect non-wholly owned subsidiary of the Company, entered into the Processing Framework Agreement with the Suppliers, pursuant to which the Suppliers agree to offer processing services for the Products to Modern Farming Saibei for a term commencing from the date of the Processing Framework Agreement to December 31, 2025.

PROCESSING FRAMEWORK AGREEMENT

The principal terms of the Processing Framework Agreement are as follows:

- Date:** May 8, 2024
- Parties:** (1) Modern Farming Saibei; and
(2) the Suppliers.
- Annual Caps:** RMB180 million from the date of the Processing Framework Agreement to December 31, 2024; and
RMB200 million for the financial year ending December 31, 2025
- Duration:** For a term commencing from the date of the Processing Framework Agreement to December 31, 2025.
- Subject matter:** The Suppliers agree to offer processing services for the Products to Modern Farming Saibei which shall meet the quality requirements set out below. Modern Farming Saibei would supply milk as raw materials.
- Quality requirements:** The Products delivered by the Suppliers shall (i) satisfy quality standards specified by Modern Farming Saibei; and (ii) comply with national and local laws and regulations of the PRC.

Pricing policy:

The price payable by Modern Farming Saibei to the Suppliers will be determined through arms length negotiation between the parties based on the yield rate, i.e. the amount of milk powder produced measured against the dry components of raw milk provided in percentage and the volume of each processing order and includes the costs of purchasing raw ancillary materials and labor costs, depreciation costs, water, electricity and energy costs, warehousing costs, loading and unloading costs, taxes, inspection fees, sampling fees, repair costs and other related expenses incurred during the provision of the processing services.

The pricing standard will be adjusted according to factors such as product specifications, warranty periods and processing venues and market conditions, including changes to packaging costs, energy costs and warehousing costs. Modern Farming Saibei and the Suppliers will engage in arms length negotiation on any pricing standards adjustment.

Internal control measures

The Group has implemented internal control procedures and policies through its internal compliance department to monitor connected transactions, including continuing connected transactions, with focus on (1) updating the list of connected persons and transaction ledgers; (2) identifying potential connected transactions; (3) (where appropriate) considering aggregation of connected transactions and managing aggregated transaction amounts; and (4) monitoring transaction amounts against annual caps or maximum limit on a monthly basis.

The Group's internal compliance department will continuously monitor the transactions contemplated under the Processing Framework Agreement to ensure that they will be conducted in accordance with the terms of the Processing Framework Agreement and in compliance with Chapter 14A of the Listing Rules; and in particular, the internal compliance department will obtain and review quotations and terms from at least two independent, qualified suppliers (whether local or overseas) offering the processing services of the same types for the Products periodically for adjustment and discussion of pricing with the Suppliers under the Processing Framework Agreement and monitor relevant, market information, published reports and guidance to ensure that the price and terms of the processing services provided under the Processing Framework Agreement will be fair and reasonable, no less favorable than those offered by other independent suppliers 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 the processing services from time to time to ensure that the processing services offered by the Suppliers are in line with the industry and market standards and the requirements of Modern Farming Saibei, 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 confirmation of the transactions under the Processing Framework 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 represent a new business segment of the Company in light of the latest market condition, there has been no historical transaction amount in relation to the processing of the Products between the Suppliers and Modern Farming Saibei.

The Annual Caps in respect of the processing services for the Products under the Processing Framework Agreement will be RMB180 million from the date of the Processing Framework Agreement to December 31, 2024 and RMB200 million for the financial year ending December 31, 2025. The Annual Caps were determined based on (i) the average market price of the processing services for the Products (as there is neither any government-prescribed price nor official guidance price in respect of the processing services, the average market price is determined with reference to the publicly available information in the market and quotations that the Company has obtained from independent suppliers); (ii) the expected demand from Modern Farming Saibei in respect of the processing services for the Products estimated based on the current stock level and the projected productivity of, and market demand for, raw milk; and (iii) a 10% buffer for potential inflation and increase in demand for processing services due to market conditions.

REASONS FOR AND BENEFITS OF ENTERING INTO THE PROCESSING FRAMEWORK 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 Processing Framework Agreement entered into between Modern Farming Saibei and the Suppliers alleviates the situation of raw milk oversupply, given that the shelf life of milk powder is generally longer than that of raw milk and milk powder can be used for feeding calves in addition to being sold externally. While the external sales will provide the Group with an additional source of revenue and the opportunity to further delve into the business of processed raw milk, the extended shelf life and internal use of the Products will enhance the Group's ability to control its costs.

The Group believes that through the cooperation with the Suppliers under the Processing Framework Agreement, the Group will be able to (i) adjust its development strategy and manage stock levels flexibly under the current market condition, (ii) optimize cost efficiency and commercial effectiveness given the competitive terms, processing capabilities and standards offered by the Suppliers, having considered factors including volume of processing orders and yield rate; (iii) ensure the stable pricing and timely provision of processing services for the Products to facilitate the normal operations of the Modern Farming Group's business, which is based on the Company's past experience of cooperating with the Suppliers or its affiliates in other aspects; and (iv) realize the Group's cost-orientated strategies and enhance its core competitiveness.

The Directors (including the independent non-executive Directors) consider that the Processing Framework 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 Processing Framework 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 December 31, 2023, the Group operated 42 dairy farms in the PRC with over 450,000 dairy cows and annual 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 Suppliers

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 Suppliers are indirect non-wholly owned subsidiaries of Mengniu, a substantial shareholder and connected person of the Company. Hence, the Suppliers are connected persons of the Company. Accordingly, the transactions contemplated under the Processing Framework 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 Processing Framework Agreement exceeds 0.1% but is less than 5%, the entering into of the Processing Framework 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 processing services for the Products under the Processing Framework Agreement
“associate(s)”, “connected person(s)”, “connected subsidiary(ies)”, “percentage ratio(s)”, “subsidiary(ies)”, “substantial shareholder(s)”	each has the meaning ascribed to it under the Listing Rules
“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)
“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

“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
“Processing Framework Agreement”	the processing framework agreement dated May 8, 2024, entered into between Modern Farming Saibei and the Suppliers in relation to the supply of processing services for the Products by the Suppliers to Modern Farming Saibei, as more particularly described in the section headed “Processing Framework Agreement” in this announcement
“Products”	Whole milk powder and skim milk powder under the Processing Framework Agreement
“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
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Suppliers”	Shanxi Yashili and Oushi Mengniu
“%”	per cent.

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

* *For identification purpose only*

Hong Kong, May 8, 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.