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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
RENEWAL OF FARM SUPPLIES FRAMEWORK AGREEMENT WITH
AIYANGNIU TECHNOLOGY

Reference is made to the announcement of the Company dated December 31, 2021 in relation to the Previous Farm Supplies Framework Agreement. As the term of the Previous Farm Supplies Framework Agreement will expire on December 31, 2022, Modern Farming, an indirect non-wholly owned subsidiary of the Company, and Aiyangniu Technology, a connected subsidiary of the Company, entered into the Farm Supplies Framework Agreement on December 28, 2022 (after trading hours) in relation to the supply of Farm Supplies by the Aiyangniu Technology Group to the Modern Farming Group during the term from January 1, 2023 to December 31, 2023.

As at the date of this announcement, Aiyangniu Technology is an indirect non-wholly owned subsidiary of the Company owned as to 75% by Modern Farming and 25% by Inner Mongolia Mengniu, a 99.99% owned subsidiary of Mengniu, which is a substantial shareholder and connected person of the Company. Aiyangniu Technology is a connected subsidiary of the Company. Accordingly, the transactions contemplated under the Farm Supplies 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 Farm Supplies Framework Agreement exceeds 0.1% but is less than 5%, the entering into of the Farm Supplies 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

Reference is made to the announcement of the Company dated December 31, 2021 in relation to the Previous Farm Supplies Framework Agreement. As the term of the Previous Farm Supplies Framework Agreement will expire on December 31, 2022, Modern Farming, an indirect non-wholly owned subsidiary of the Company, and Aiyangniu Technology, a connected subsidiary of the Company, entered into the Farm Supplies Framework Agreement on December 28, 2022 (after trading hours) in relation to the supply of Farm Supplies by the Aiyangniu Technology Group to the Modern Farming Group during the term from January 1, 2023 to December 31, 2023.

FARM SUPPLIES FRAMEWORK AGREEMENT

The principal terms of the Farm Supplies Framework Agreement are as follows:

- Date:** December 28, 2022
- Parties:** (1) Modern Farming (as the purchaser); and
(2) Aiyangniu Technology (as the supplier).
- Duration:** For a term commencing from January 1, 2023 to December 31, 2023.
- Subject matter:** The Modern Farming Group agrees to purchase, and the Aiyangniu Technology Group agrees to supply and deliver to designated farms of the Modern Farming Group, the Farm Supplies which shall meet the quality requirements as set out below.

Quality requirements: The Farm Supplies supplied by the Aiyangniu Technology Group shall (i) satisfy the quality standards of the Modern Farming Group as specified in the purchase orders; (ii) comply with national and local laws and regulations of the PRC; and (iii) be free from mildew, adulteration and contamination.

Pricing policy: The price payable by the Modern Farming Group to the Aiyangniu Technology Group shall be determined by reference to the lowest quoted price at which the Modern Farming Group could obtain from independent third parties (whether local or overseas) for the same types of Farm Supplies. For this purpose, the Modern Farming Group will seek quotations from at least two independent third parties offering Farm Supplies of the same types and quality standards each time before a purchase order is placed with the Aiyangniu Technology Group.

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 Farm Supplies Framework Agreement to ensure that they will be conducted in accordance with the terms of the Farm Supplies Framework Agreement and in compliance with Chapter 14A of the Listing Rules; and in particular, the internal compliance department will review relevant quotations from independent third parties to ensure that the price of the Farm Supplies provided under the Farm Supplies Framework Agreement will be fair and reasonable, 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.

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

HISTORICAL TRANSACTION AMOUNTS, ANNUAL CAP AND BASIS OF DETERMINATION

The historical transaction amounts between the Modern Farming Group and the Aiyangniu Technology Group in respect of the purchase and supply of the Farm Supplies are (i) approximately RMB35,372,000 for the period from August 24, 2021 to December 31, 2021; and (ii) approximately RMB110,179,000 for the period from January 1, 2022 to November 30, 2022.

The annual cap in respect of the purchase and supply of the Farm Supplies under the Farm Supplies Framework Agreement from January 1, 2023 to December 31, 2023 will be RMB200,000,000, which is determined based on (i) the average market prices of the Farm Supplies (as there is neither any government-prescribed price nor government guidance price in respect of the Farm Supplies, the average market price is determined with reference to the publicly available information in the market); (ii) the anticipated growth of the Modern Farming Group's demands for the Farm Supplies taking into account the expected growth of herd size from existing dairy farms and subsequent to the completion of acquisition of 100% equity interests in Zhongyuan Muye and Fuyuan; and (iii) the historical transaction amounts as set out above.

REASONS FOR AND BENEFITS OF ENTERING INTO THE FARM SUPPLIES FRAMEWORK AGREEMENT

Aiyangniu Technology operates the Aiyangniu Platform which integrates resources from more than 1,000 suppliers for the leading market players in the dairy farming industry in the PRC and is able to lower the purchase price of certain farm supplies through centralized procurement. The Aiyangniu Platform has a transparent purchase price quotation system for the dairy farms to make their procurement decision. The Aiyangniu Platform also consolidates market information in relation to the farm supplies commonly used by the dairy farms and shares such information with its business partners.

The Aiyangniu Platform has a stringent selection and quality control mechanism of suppliers. The Aiyangniu Platform supervises the whole delivery process of farm supplies from suppliers to dairy farms to ensure that the farm supplies can meet the quality standard set by the dairy farms. The Aiyangniu Platform also dynamically screens its list of suppliers based on the quality control performance, credibility, product satisfaction and various indices of the suppliers. Modern Farming believes that the cooperation with Aiyangniu Technology can ensure the quality and safety of Farm Supplies supplied to the Modern Farming Group which are essential to the production of high quality raw milk.

Through the acquisition of Aiyangniu Technology and the cooperation under the Farm Supplies Framework Agreement, the Modern Farming Group will be able to (i) closely follow the market trend of Farm Supplies that it frequently uses; (ii) reduce its procurement costs and optimize operational capabilities, given that the price of the Farm Supplies provided by the Aiyangniu Technology Group will be determined with reference to the lowest quoted price received by the Modern Farm Group from other third party suppliers (whether local or overseas) for the same type of Farm Supplies; and (iii) ensure the stable pricing and timely supply of Farm Supplies to its dairy farms, with the aim of facilitating the normal operations of the Modern Farming Group's business.

The Directors (including the independent non-executive Directors) consider that the Farm Supplies 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. LU Minfang, a non-executive Director and the chairman of the Board, is also an executive director and the chief executive officer of Mengniu; (ii) Mr. ZHANG Ping, a non-executive Director, is also an executive director and the chief financial officer of Mengniu (iii) Mr. ZHAO Jiejun, a non-executive Director, is also a vice president and the head of milk sourcing and supply chain business unit of Mengniu and the chairman of the board of directors of Aiyangniu Technology. Accordingly, each of Mr. LU Minfang, Mr. ZHANG Ping and Mr. ZHAO Jiejun is considered to have a material interest in the Farm Supplies Framework Agreement and has abstained from voting on the relevant resolutions of the Board approving the Farm Supplies Framework Agreement.

INFORMATION ON THE PARTIES

(1) The Group

The Group is a leading dairy farm operator and fresh raw milk producer in the PRC. As of June 30, 2022, the Group operated 38 dairy farms in the PRC with over 380,000 dairy cows and annual milk yield of over 2.3 million tons.

(2) Modern Farming

Modern Farming is an indirect non-wholly owned subsidiary of the Company and is principally engaged in operating dairy farms, 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.

(3) Aiyangniu Technology

Aiyangniu Technology was established in the PRC in 2015 and is principally engaged in the operation of the Aiyangniu Platform, sale of feedstuffs, additives, organic fertilizers and veterinary medicine, and trade consulting of agricultural and livestock products in the PRC. As at the date of this announcement, Aiyangniu Technology is an indirect non-wholly owned subsidiary of the Company owned by Modern Farming and Inner Mongolia Mengniu as to 75% and 25%, respectively.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Aiyangniu Technology is an indirect non-wholly owned subsidiary of the Company owned as to 75% by Modern Farming and 25% by Inner Mongolia Mengniu, a 99.99% owned subsidiary of Mengniu, which is a substantial shareholder and connected person of the Company. Aiyangniu Technology is a connected subsidiary of the Company. Accordingly, the transactions contemplated under the Farm Supplies 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 Farm Supplies Framework Agreement exceeds 0.1% but is less than 5%, the entering into of the Farm Supplies 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:

“Aiyangniu Platform”	the Aiyangniu online procurement platform of farm supplies for the dairy farming industry operated by Aiyangniu Technology
“Aiyangniu Technology”	Inner Mongolia Aiyangniu Technology Co., Ltd.* (內蒙古愛養牛科技有限公司), a company incorporated in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Company

“Aiyangniu Technology Group”	Aiyangniu Technology and its subsidiaries
“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 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
“Farm Supplies”	farm supplies for the dairy farming industry, including but not limited to feedstuffs, additives, bulk raw materials, veterinary medicine, machineries and other agricultural and livestock products
“Farm Supplies Framework Agreement”	the framework agreement dated December 28, 2022, entered into between Modern Farming and Aiyangniu Technology in relation to the supply of Farm Supplies by the Aiyangniu Technology Group to the Modern Farming Group, as more particularly described in the section headed “Farm Supplies Framework Agreement” in this announcement
“Fuyuan”	Inner Mongolia Fuyuan International Industrial (Group) Co. Ltd.* (內蒙古富源國際實業(集團)有限公司), a limited liability company established in the PRC
“Group”	the Company and its subsidiaries

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Inner Mongolia Mengniu”	Inner Mongolia Mengniu Dairy (Group) Co., Ltd.* (內蒙古蒙牛乳業(集團)股份有限公司), a company established in the PRC with limited liabilities, a 99.99% owned subsidiary of Mengniu as of the date of this announcement
“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
“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 Group”	Modern Farming and its subsidiaries (excluding the Aiyangniu Technology Group)
“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
“Previous Farm Supplies Framework Agreement”	the framework agreement dated December 31, 2021, entered into between Modern Farming and Aiyangniu Technology in relation to the supply of Farm Supplies by the Aiyangniu Technology Group to the Modern Farming Group
“RMB”	Renminbi, the lawful currency of the PRC

“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Zhongyuan Muye”	Zhongyuan Muye Company Limited* (中元牧業有限公司), a company incorporated with limited liability under the laws of the PRC
“%”	per cent.

For and on behalf of the Board
China Modern Dairy Holdings Ltd.
LU Minfang
Chairman

* *For identification purpose only*

Hong Kong, December 28, 2022

As of the date of this announcement, the executive Directors are Mr. SUN Yugang and Mr. ZHU Xiaohui, the non-executive Directors are Mr. LU Minfang (Chairman), Mr. ZHANG Ping, Mr. ZHAO Jiejun and Ms. GAN Lu, and the independent non-executive Directors are Mr. LI Shengli, Mr. LEE Kong Wai, Conway and Mr. CHOW Ming Sang.