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CHINA ZHONGDI DAIRY HOLDINGS COMPANY LIMITED

中國中地乳業控股有限公司

(A company incorporated under the laws of the Cayman Islands with limited liability)

(Stock code: 1492)

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO SALE AND PURCHASE OF RAW FRESH MILK AND FACTORING SERVICES UNDER RULE 14A.60 OF THE LISTING RULES

I. BACKGROUND

Reference is made to (i) the announcement dated 31 July 2020 in relation to subscription for new Shares under general mandate and possible change of controlling Shareholders; (ii) the announcement dated 12 August 2020 in relation to completion of subscription for new Shares under general mandate and change of controlling Shareholders; and (iii) the announcement dated 4 September 2020 in relation to continuing connected transactions (the “**Announcements**”) of China ZhongDi Dairy Holdings Company Limited (the “**Company**”). Unless otherwise defined herein, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcements.

Upon completion of the Subscription on 12 August 2020, Yili Industrial held 432,641,522 Shares through its wholly-owned subsidiary Hongkong Jingang Trade Holding Co., Limited, representing approximately 16.6% of the issued share capital of the Company, and became a substantial Shareholder of the Company. Accordingly, Yili Industrial and its subsidiaries are all connected persons of the Company under Chapter 14A of the Listing Rules.

II. THE CONTINUING CONNECTED TRANSACTIONS IN RELATION TO SALE AND PURCHASE OF RAW FRESH MILK AND FACTORING SERVICES BETWEEN THE YILI GROUP AND THE GROUP

The Yili Group had entered into certain agreements with the Group in relation to continuing transactions conducted on a regular and continuing basis before the Yili Group became a connected person of the Company. Details of such agreements are set forth below:

1. Transactions in relation to sale and purchase of raw fresh milk

No.	Transaction parties under the Yili Group	Transaction parties under the Group	Nature and dates of the agreements	Terms of agreements	Description of the transactions	Pricing basis
1.	Ningxia Yili Dairy Co., Ltd. (寧夏伊利乳業有限責任公司), a company owned as to 100% by Yili Industrial, which is mainly engaged in the production and sale of dairy products	Helan ZhongDi Farming Co., Ltd.	The agreement in relation to the sale and purchase of raw fresh milk dated 20 December 2018 and a supplementary agreement dated 27 December 2019	From 1 January 2019 to 31 December 2023	The transaction party under the Group provides the transaction party under the Yili Group with raw fresh milk	Purchasing price is adjusted in accordance with the change of market conditions, the final purchasing price = benchmark price + quality index pricing + other quality pricing
2.	Langfang Yili Dairy Co., Ltd. (廊坊伊利乳品有限公司), a company owned as to 75% by Yili Industrial, which is mainly engaged in the production and sale of dairy products	Beijing ZhongDi Livestock Technology Co., Ltd.	The agreement in relation to the sale and purchase of raw fresh milk dated 20 December 2018 and a supplementary agreement dated 25 December 2019	From 1 January 2019 to 31 December 2023	The transaction party under the Group provides the transaction party under the Yili Group with raw fresh milk	Purchasing price is adjusted in accordance with the change of market conditions, the final purchasing price = benchmark price + quality index pricing + other quality pricing
3.	Langfang Yili Dairy Co., Ltd. (廊坊伊利乳品有限公司), a company owned as to 75% by Yili Industrial, which is mainly engaged in the production and sale of dairy products	Langfang ZhongDi Farming Co., Ltd.	The agreement in relation to the sale and purchase of raw fresh milk dated 20 December 2018, supplementary agreement (I) dated 1 August 2019, supplementary agreement (II) dated 25 December 2019 and supplementary agreement (III) dated 1 February 2020	From 1 January 2019 to 31 December 2023	The transaction party under the Group provides the transaction party under the Yili Group with raw fresh milk	Purchasing price is adjusted in accordance with the change of market conditions, the final purchasing price = benchmark price + quality index pricing + other quality pricing

No.	Transaction parties under the Yili Group	Transaction parties under the Group	Nature and dates of the agreements	Terms of agreements	Description of the transactions	Pricing basis
4.	Liaoning Yili Dairy Co., Ltd. (遼寧伊利乳業有限公司), a company owned as to 70% by Yili Industrial, which is mainly engaged in the production and sale of dairy products	Kuandian ZhongDi Farming Co., Ltd.	The agreement in relation to the sale and purchase of raw fresh milk dated 20 December 2018, a supplementary agreement dated 1 June 2019, a supplementary agreement dated 25 December 2019 and a supplementary agreement dated 1 February 2020	From 1 January 2019 to 31 December 2023	The transaction party under the Group provides the transaction party under the Yili Group with raw fresh milk	Purchasing price is adjusted in accordance with the change of market conditions, the final purchasing price = benchmark price + quality index pricing + other quality pricing
5.	Ningxia Yili Dairy Co., Ltd. (寧夏伊利乳業有限責任公司), a company owned as to 100% by Yili Industrial, which is mainly engaged in the production and sale of dairy products	Ningxia ZhongDi Livestock Co., Ltd.	The agreement in relation to the sale and purchase of raw fresh milk dated 20 December 2018 and supplementary agreement (I) dated 27 December 2019	From 1 January 2019 to 31 December 2023	The transaction party under the Group provides the transaction party under the Yili Group with raw fresh milk	Purchasing price is adjusted in accordance with the change of market conditions, the final purchasing price = benchmark price + quality index pricing + other quality pricing
6.	The Ulanqab Dairy Products Factory of Inner Mongolia Yili Industrial Co., Ltd. (內蒙古伊利實業股份有限公司烏蘭察布乳品廠), a branch company of Yili Industrial, which is mainly engaged in the production, processing, storage, transportation and sale of dairy products, food and beverages	Tianzhen ZhongDi Farming Co., Ltd.	The agreement in relation to the sale and purchase of raw fresh milk dated 1 January 2019, supplementary agreement (I) dated 5 January 2019, supplementary agreement (II) dated 1 November 2019, supplementary agreement (III) dated 25 December 2019 and supplementary agreement (IV) dated 1 February 2020	From 1 January 2019 to 31 December 2023	The transaction party under the Group provides the transaction party under the Yili Group with raw fresh milk	Purchasing price is adjusted in accordance with the change of market condition, the final purchasing price = benchmark price + quality index pricing + other quality pricing

No.	Transaction parties under the Yili Group	Transaction parties under the Group	Nature and dates of the agreements	Terms of agreements	Description of the transactions	Pricing basis
7.	Langfang Yili Dairy Co., Ltd. (廊坊伊利乳品有限公司), a company owned as to 75% by Yili Industrial, which is mainly engaged in the production and sale of dairy products	Tianjin ZhongDi Livestock Co. Ltd.	The agreement in relation to the sale and purchase of raw fresh milk dated 20 December 2018, a letter of supplementary agreement (I) dated 1 August 2019, supplementary agreement (II) dated 25 December 2019 and supplementary agreement (III) dated 1 February 2020	From 1 January 2019 to 31 December 2023	The transaction party under the Group provides the transaction party under the Yili Group with raw fresh milk	Purchasing price is adjusted in accordance with the change of market condition, the final purchasing price = benchmark price + quality index pricing + other quality pricing
8.	The Ulanqab Dairy Products Factory of Inner Mongolia Yili Industrial Co., Ltd. (內蒙古伊利實業股份有限公司烏蘭察布乳品廠), a branch company of Yili Industrial, which is mainly engaged in the production, processing, storage, transportation and sale of dairy products, food and beverages	Inner Mongolia ZhongDi Dairy Co., Ltd.	The agreement in relation to the sale and purchase of raw fresh milk dated 1 January 2019, supplementary agreement (I) dated 25 December 2019 and supplementary agreement (II) dated 1 February 2020	From 1 January 2019 to 31 December 2023	The transaction party under the Group provides the transaction party under the Yili Group with raw fresh milk	Purchasing price is adjusted in accordance with the change of market condition, the final purchasing price = benchmark price + quality index pricing + other quality pricing

2. Transactions in relation to factoring services

Transaction parties No. under the Yili Group	Transaction parties under the Group	Nature and dates of the agreements	Terms of agreements	Description of the transactions	Pricing basis
1. Huishang Commercial Factoring Co., Ltd. (惠商商業保理有限公司), a company owned as to 100% by Yili Industrial, which is mainly engaged in factoring	Inner Mongolia ZhongDi Dairy Co., Ltd.	The factoring business cooperation agreement dated 29 November 2018 and a factoring business contract dated 30 November 2018	From 29 November 2018 to 26 November 2023	The transaction party under the Group sells goods or provides services to purchasers (as debtors), then the transaction party under the Group receives factoring facility services from the transaction party under the Yili Group in relation to the accounts receivable arising from its transactions with the purchasers (as debtors)	Market price
2. Huishang Commercial Factoring Co., Ltd. (惠商商業保理有限公司), a company owned as to 100% by Yili Industrial, which is mainly engaged in factoring	Ulanqab ZhongDi Farming Co., Ltd.	The factoring business cooperation agreement and a factoring business contract dated 29 November 2018	From 29 November 2018 to 10 December 2023	The transaction party under the Group sells goods or provides services to purchasers (as debtors), then the transaction party under the Group receives factoring facility services from the transaction party under the Yili Group in relation to the accounts receivable arising from its transactions with the purchasers (as debtors)	Market price

3. Reasons for and benefits of entering into the continuing connected transactions

Continuing connected transactions in relation to sale and purchase of raw fresh milk

Being one of the major suppliers of raw fresh milk in the PRC, the Group owns several 10,000-head dairy farms in the PRC's golden milk source belt. Through scientific management and large-scale operations, it can provide downstream enterprises with high-quality, sizable and stable supply of raw fresh milk. As the largest dairy product manufacturer in the PRC, the Yili Group is mainly engaged in the processing, manufacturing and sales of various dairy products and healthy drinks. In order to meet the demand for dairy production, the Yili Group also needs a stable and high-quality source of raw fresh milk supply.

The Group has been maintaining a continuous and good business relationship with the Yili Group in terms of the supply of raw fresh milk. Upon Yili Industrial becomes a substantial Shareholder of the Company, maintaining the existing relationship in relation to the sale and purchase of raw fresh milk can further exert the synergy effect between the upstream and downstream of the industrial chain. It can provide a stable sales channel for the Group, smooth the volatility of market sales and revenue, and enhance the Group's ability to resist risks at the same time which is conducive to sustaining the Group's competitiveness in the supply of high-quality raw fresh milk, and is in the interests of the Company and the Shareholders as a whole.

Continuing connected transactions in relation to factoring services

Being a substantial Shareholder and important business partner of the Group, Yili Industrial has a strong capital base and financing capabilities. The factoring services provided by the Yili Group to the Group will be able to exert the synergy effect of the cooperation between the two parties, helping the Group expand its financing channels, relieve capital pressure, and provide financial support for farm operation and construction of milk source, which is conducive to the long-term development of the Group and is in the interests of the Company and the Shareholders as a whole.

The Directors (including independent non-executive Directors) are of the view that the above agreements in relation to sale and purchase of raw fresh milk and factoring services and most of the continuing transactions conducted thereunder between the Yili Group and the Group are entered into in the ordinary and usual course of business of the Group and conducted on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4. Implications under the Listing Rules

Upon completion of the Subscription on 12 August 2020, Yili Industrial held 432,641,522 Shares through its wholly-owned subsidiary Hongkong Jingang Trade Holding Co., Limited, representing approximately 16.6% of the issued share capital of the Company, and became a substantial Shareholder of the Company. Such transaction parties under the Yili Group are all subsidiaries and branch companies of Yili Industrial. Pursuant to Chapter 14A of the Listing Rules, such transaction parties under the Yili Group are all associates of Yili Industrial. Therefore, Yili Industrial and such transaction parties under the Yili Group constitute connected persons of the Company.

Therefore, the continuing transactions between the Yili Group and the Group before Yili Industrial and such transaction parties under the Yili Group became connected persons of the Company have subsequently become continuing connected transactions of the Company under the Listing Rules. Pursuant to Rule 14A.60 of the Listing Rules, the Company shall fully comply with all applicable annual review, reporting, disclosure and (if applicable) independent Shareholders' approval requirements under Chapter 14A of the Listing Rules when such agreements are renewed or the terms of which are varied.

Considering that Yili Industrial has become a connected person of the Company, to properly manage the continuing connected transactions between the Yili Group and the Group, on 4 September 2020, the Company and Yili Industrial entered into the Raw Fresh Milk Supply Framework Agreement in relation to the sale of raw fresh milk by the Group to the Yili Group and the Company and Yili Industrial entered into the Financial and Factoring Services Framework Agreement in relation to the provision of financial and factoring services by the Yili Group to the Group, with a term from the date of approval at the extraordinary general meeting by the independent Shareholders to 31 December 2022. Once such framework agreements are considered and approved at the extraordinary general meeting by the independent Shareholders, the terms and conditions of the Framework Agreements shall prevail should there be any discrepancy between the terms and conditions of the above existing agreements and the Framework Agreements. For details, please refer to the announcement of the Company dated 4 September 2020. For the Framework Agreements, the Company shall further comply with the annual review, reporting, disclosure, and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules applicable to such continuing connected transactions.

INFORMATION ON THE PARTIES

The Group

The Company is a modern agricultural and animal husbandry enterprise which is mainly engaged in dairy farming in the PRC. The Group's business models cover participating in multiple stages of the dairy farming industry value chain, including raising dairy cows, breeding dairy cows, premium raw fresh milk production and sale, importing and selling dairy cows of quality breeds and breeding stock, as well as import trading business in alfalfa hay and other animal husbandry-related products.

Yili Industrial

Yili Industrial is a limited liability company incorporated in the PRC, 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, comprising of liquid milk, milk beverages, milk powder, yogurt, frozen beverages, cheese, milk fat and packaged drinking water.

On behalf of the Board
China ZhongDi Dairy Holdings Company Limited
Zhang Jianshe
Chairman

Hong Kong, 24 September 2020

As at the date of this announcement, the Board comprises Mr. Zhang Jianshe and Mr. Zhang Kaizhan as executive Directors; Mr. Liu Dai, Mr. Du Yuchen, Mr. Li Jian and Ms. Yu Tianhua as non-executive Directors; and Prof. Li Shengli, Dr. Zhang Shengli and Mr. Zhang Juying Jerry as independent non-executive Directors.