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12 December 2025

To the Independent Board Committee and the Independent Shareholders

China Shengmu Organic Milk Limited

Room A, 32nd Floor
COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

Dear Sirs and Madams,

**CONTINUING CONNECTED TRANSACTIONS:
(1) 2026 DABEINONG PRODUCTS AND SERVICES SUPPLY FRAMEWORK
AGREEMENT;
AND
(2) 2026 RAW FRESH MILK SUPPLY FRAMEWORK AGREEMENT**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the 2026 Dabeinong Products and Services Supply Framework Agreement, the 2026 Raw Fresh Milk Supply Framework Agreement, and the transactions contemplated thereunder (including the proposed annual caps) (the “**Transactions**”), details of which are set out in the “Letter from the Board” contained in the circular of the Company dated 12 December 2025 (the “**Circular**”). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

The 2026 Dabeinong Products and Services Supply Framework Agreement

On 19 November 2025, the Company (for itself and on behalf of its subsidiaries) has entered into the 2026 Dabeinong Products and Services Supply Framework Agreement with:

- (i) Dabeinong Group (for itself and on behalf of its subsidiaries, but excluding Yiyongmei Dairy and its subsidiaries) in relation to the procurement of products (including but not limited to feed, additives, medicines, rice, eggs and seafood products) by the Group from Dabeinong Group (“**Purchase of Materials**”) for a term commencing on 1 January 2026 to 31 December 2028;
- (ii) Yiyongmei Dairy, a non wholly-owned subsidiary of Dabeinong Group (for itself and on behalf of its subsidiaries) in relation to the procurement of milk powder by the Group from Yiyongmei Dairy (“**Purchase of Milk Powder**”, together with Purchase of Materials collectively defined as “**Purchase of Dabeinong Products**”) for a term commencing on 1 January 2026 to 31 December 2028; and
- (iii) Yiyongmei Dairy, pursuant to which Yiyongmei Dairy agreed to provide processing services in relation to the production of milk powder for the Group from time to time (“**Yiyongmei Processing Services**”) for a term commencing on 1 January 2026 to 31 December 2028.

The 2026 Raw Fresh Milk Supply Framework Agreement

On 24 November 2025, Shengmu High-tech (for itself and on behalf of its subsidiaries), an indirect wholly-owned subsidiary of the Company, has entered into the 2026 Raw Fresh Milk Supply Framework Agreement with Inner Mongolia Mengniu (for itself and on behalf of its subsidiaries) in relation to the purchase of raw fresh milk by China Mengniu Group from the Group (“**Supply of Raw Fresh Milk**”) commencing on 1 January 2026 to 31 December 2028.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Mr. Shao Genhuo (“**Mr. Shao**”) holds 22.73% equity interest in, and is the de facto controller of, Dabeinong Group. Accordingly, Dabeinong Group is an associate of Mr. Shao. Mr. Shao also holds the entire equity interest in Beijing Zhi Nong, which in turn holds the entire equity interest in Nong You, a substantial shareholder of the Company. Yiyongmei Dairy is a non wholly-owned subsidiary of Dabeinong Group. Accordingly, each of Mr. Shao, Dabeinong Group and Yiyongmei Dairy is a connected person of the Company. The entering into the 2026 Dabeinong Products and Services Supply Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more applicable percentage ratios under the Listing Rules in respect of the highest proposed annual cap under the 2026 Dabeinong Products and Services Supply Framework Agreement exceed 5%, the entering into the 2026 Dabeinong Products and Services Supply Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Nong You and its associates (namely Mr. Shao and Beijing Zhi Nong), holding 1,301,651,000 Shares, representing approximately 15.53% of the total number of issued Shares as at the Latest Practicable Date, will be required to abstain from voting at the EGM in relation to the 2026 Dabeinong Products and Services Supply Framework Agreement and the transactions contemplated under such agreement.

Ms. Shao Lijun ("**Ms. Shao**"), a non-executive Director, is also a director of Nong You and general manager of Beijing Zhi Nong. Accordingly, Ms. Shao abstained from voting on the resolution(s) of the Directors approving the 2026 Dabeinong Products and Services Supply Framework Agreement and the transactions contemplated thereunder. Other than Ms. Shao, no Director is materially interested in the transactions contemplated under the 2026 Dabeinong Products and Services Supply Framework Agreement and accordingly no Director is required to abstain from voting on the resolution(s) of the Directors to approve the 2026 Dabeinong Products and Services Supply Framework Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, Inner Mongolia Mengniu is a wholly-owned subsidiary of China Mengniu. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, China Mengniu holds 100% equity interest in Start Great, which in turn directly holds 2,513,178,555 Shares, representing approximately 29.99% equity interest in the Company. Accordingly, each of Start Great, China Mengniu and Inner Mongolia Mengniu is a connected person of the Company. The entering into the 2026 Raw Fresh Milk Supply Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more applicable percentage ratios under the Listing Rules in respect of the highest proposed annual caps under the 2026 Raw Fresh Milk Supply Framework Agreement exceed 5%, the entering into the 2026 Raw Fresh Milk Supply Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Start Great which, to the the best of the Directors' knowledge, information and belief having made all reasonable enquiry, controls the voting rights in respect of its Shares, will be required to abstain from voting at the EGM in relation to the 2026 Raw Fresh Milk Supply Framework Agreement and the transactions contemplated under such agreement.

Mr. Chen Yiyi ("**Mr. Chen**"), a non-executive Director and chairman of the Board, is also a vice president and head of strategy management of China Mengniu. Mr. Bai Fengming ("**Mr. Bai**"), a non-executive Director, is also the general manager of the sales management center under the room-temperature products business unit of China Mengniu. Accordingly, Mr. Chen and Mr. Bai have abstained from voting on the resolution(s) of the Directors approving the 2026 Raw Fresh Milk Supply Framework Agreement and the transactions contemplated thereunder. Other than Mr. Chen and Mr.

Bai, no Director is materially interested in the transactions contemplated under the 2026 Raw Fresh Milk Supply Framework Agreement and no Director is required to abstain from voting on the resolution(s) of the Directors to approve the 2026 Raw Fresh Milk Supply Framework Agreement and the transactions contemplated under such agreement.

Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, no Shareholder is required to abstain from voting at the EGM in relation to the 2026 Dabeinong Products and Services Supply Framework Agreement, the 2026 Raw Fresh Milk Supply Framework Agreement and the transactions contemplated under such agreements.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Wang Liyan, Mr. Wu Liang and Mr. Sun Yansheng, has been established to advise the Independent Shareholders as to (i) whether the 2026 Dabeinong Products and Services Supply Framework Agreement, the 2026 Raw Fresh Milk Supply Framework Agreement and the Transactions are conducted in the Group's ordinary and usual course of business and are in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the 2026 Dabeinong Products and Services Supply Framework Agreement, the 2026 Raw Fresh Milk Supply Framework Agreement and the Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (iii) whether the proposed annual caps for the Transactions are fair and reasonable; and (iv) how to vote in respect of the ordinary resolutions to be proposed at the EGM approving the 2026 Dabeinong Products and Services Supply Framework Agreement, the 2026 Raw Fresh Milk Supply Framework Agreement, the Transactions and the proposed annual caps (the "**Resolutions**"), taking into account the recommendations of the Independent Financial Adviser.

THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the 2026 Dabeinong Products and Services Supply Framework Agreement, the 2026 Raw Fresh Milk Supply Framework Agreement and the Transactions are conducted in the Group's ordinary and usual course of business and are in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the 2026 Dabeinong Products and Services Supply Framework Agreement, the 2026 Raw Fresh Milk Supply Framework Agreement and the Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (iii) whether the proposed annual caps for the Transactions are fair and reasonable; and (iv) how the Independent Shareholders should vote in respect of the Resolutions.

We have not acted as independent financial adviser or financial adviser in relation to any transactions of the Company in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the 2026 Dabeinong Products and Services Supply Framework Agreement, the 2026 Raw Fresh Milk Supply Framework Agreement, the Transactions and the proposed annual caps are at market level and not conditional upon successful passing of the Resolutions at the EGM, and that our engagement is on normal commercial terms, we are independent of the Company.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others (i) the 2026 Dabeinong Products and Services Supply Framework Agreement; (ii) the 2026 Raw Fresh Milk Supply Framework Agreement; (iii) the annual report of the Company for the year ended 31 December 2024 (the “**2024 Annual Report**”); (iv) the interim report of the Company for the six months ended 30 June 2025 (the “**2025 Interim Report**”); and (v) other information as set out in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Group (the “**Management**”). We have assumed that all the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and will continue to be so up to the date of the Circular. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regards to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

We have no reason to believe that any such statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render them untrue, inaccurate or misleading.

We consider that we have been provided with, and have reviewed, sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business, financial conditions and affairs or future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background information

1.1 Principal businesses of the Group and connected persons

- **The Company** is an investment holding company. **The Group** is principally engaged in dairy farming and the sale of raw milk. It has also expanded to the milk powder export trade business since August 2025. **Shengmu High-tech** is principally engaged in dairy farming and the sale of raw milk.
- **Dabeinong Group** is a company whose shares are listed on the Shenzhen Stock Exchange (stock code: 002385.SZ) and is principally engaged in the manufacturing and sale of animal feed products (in particular, it is a leading dairy farming materials provider and one of the largest feed pre-mix enterprises in the PRC).

- **Yiyingmei Dairy**, a non wholly-owned subsidiary of Dabeinong Group, principally engaged in the manufacturing and sale of dairy products, including organic infant and other formula milk powder.
- **Inner Mongolia Mengniu** is a wholly-owned subsidiary of China Mengniu and is principally engaged in the business of manufacture and sale of dairy products.
- **China Mengniu** is a company listed on the Stock Exchange (stock code: 2319.HK) and is one of the leading dairy product manufacturers in the PRC. **China Mengniu Group** is principally engaged in manufacturing and distribution of quality dairy products including liquid milk, ice-cream, milk formula and other dairy products.

Given that (i) the Purchase of Materials by the Group are essential to the production of raw milk by the Group; (ii) the Purchase of Milk Powder by the Group are essential to the Group's milk powder export trade business; (iii) the Yiyingmei Processing Services provided by Yiyingmei Dairy to the Group provide flexibility to the Group's expanding milk powder export trade business; and (iv) the sale of raw milk to Inner Mongolia Mengniu by the Group is under the principal business of the Group, the Transactions contemplated under the 2026 Dabeinong Products and Services Supply Framework Agreement and the 2026 Raw Fresh Milk Supply Framework Agreement are within the ordinary and usual course of business of the Group.

1.2 Key historical data of the Group

Set out below are the key historical data of the Group which are relevant to the Transactions contemplated under the 2026 Dabeinong Products and Services Supply Framework Agreement and the 2026 Raw Fresh Milk Supply Framework Agreement.

Table 1

	For the year ended 31 December		For the six months ended 30 June	
	2023	2024	2024	2025
Revenue (RMB)	3,383,629,000	3,126,184,000	1,490,702,000	1,444,274,000
Sales volume (tonnes)	711,465	699,803	350,848	372,923
Average selling price (RMB/tonne)	4,756	4,467	4,249	3,872
Cost of sales (RMB)	2,358,609,000	2,200,294,000	1,096,193,000	1,079,408,000

	As at 31 December		As at
	2023	2024	30 June 2025
Number of farms	34	34	34
Dairy cows in stock (head)	136,566	144,448	143,553
Milkable cows (heads)	64,193	62,842	64,477
Calves and heifers (heads)	72,373	81,606	79,076
Fattening cows ¹ (heads)	<u>11,463</u>	<u>12,033</u>	<u>2,963</u>
Total (heads)	<u>148,029</u>	<u>156,481</u>	<u>146,516</u>

Note:

1. Fattening cows refer to a type of cow that mainly produces beef, the main purpose of which is for selling.

For the six months ended 30 June 2025 (“1H2025”) vs for the six months ended 30 June 2024 (“1H2024”)

The Group's sales revenue decreased from approximately RMB1,490.7 million in 1H2024 to approximately RMB1,444.3 million in 1H2025, representing a slight year-on-year decrease of approximately 3.1%. Such decrease was mainly due to the continuous decline in the selling price of raw milk as a result of the imbalance between supply and demand in the raw milk market. During 1H2025, the average selling price of raw milk decreased by approximately 8.9% from RMB4,249 per tonne in 1H2024 to approximately RMB3,872 per tonne in 1H2025.

Benefiting from the declining prices in the forage market, the Group continued to optimise feed nutrition formulas and implemented precision feeding based on the different growth stages and production needs of dairy cows. As a result, the Group's cost of sales decreased from approximately RMB1,096.2 million in 1H2024 to approximately RMB1,079.4 million in 1H2025, representing a slight year-on-year decrease of approximately 1.5%.

As at 30 June 2025, the Group was operating 34 farms with 143,553 heads of dairy cows and 2,963 fattening cows, which was about 6.5% less than the total number of cows recorded as at 31 December 2024. The decrease was mainly relating to the number of fattening cows.

For the year ended 31 December 2024 (“FY2024”) vs for the year ended 31 December 2023 (“FY2023”)

The Group's sales revenue decreased from approximately RMB3,383.6 million in FY2023 to approximately RMB3,126.2 million in FY2024, representing a year-on-year decrease of approximately 7.6%. Such decrease was mainly due to the continuous decline in the selling price of raw milk. During FY2024, the average selling price of raw milk dropped by approximately 6.1% from RMB4,756 per tonne in FY2023 to approximately RMB4,467 per tonne in FY2024.

In 2024, the Group was deeply committed to refined farming and focusing on operational efficiency improvement. The Group actively expanded the direct sourcing of high-quality feedstuffs and obtained high-quality raw materials at competitive prices to ensure the stability and quality of nutritional supply for dairy cows, and at the same time continuously optimized the nutritional formula of feedstuffs and accurately adjusted it according to the different stages of growth and production needs of dairy cows, thus achieving a steady decrease in feed costs. As a result, the Group's cost of sales decreased from approximately RMB2,358.6 million in FY2023 to approximately RMB2,200.3 million in FY2024, representing a year-on-year decrease of approximately 6.7%.

As at 31 December 2024, the Group was operating 34 farms with 144,448 heads of dairy cows and 12,033 fattening cows, which was about 5.7% more than the total number of cows as at 31 December 2023.

Outlook

In 2025, government support through key policy documents and industry guidance is driving the recovery and high-quality development of China's dairy and beef cow sectors. Strategic measures include financial aid, farm efficiency upgrades, improved cow breeds, and better integration of farming and processing. By 2030, the industry aims to boost milk production to 45 million tonnes, maintain over 70% self-sufficiency, and achieve high standards in farm scale, milk yield, product quality, and consumption. The Group is confident in its growth, leveraging unique resources from the Ulan Buh Desert and aligning with national policies. It plans to enhance milk quality, control costs, stabilize supply chains, and support Mengniu Group's premium organic milk business. Additionally, it will pursue a milk-meat linkage strategy to optimize asset value and build a dual-growth model, while investing in infrastructure such as breeding farms, water security, environmental upgrades, and smart farm systems to strengthen operational efficiency and industry influence.

2. Reasons for and benefits of the 2026 Dabeinong Products and Services Supply Framework Agreement and the 2026 Raw Fresh Milk Supply Framework Agreement

2.1 Historical background relating to the 2026 Dabeinong Products and Services Supply Framework Agreement and the 2026 Raw Fresh Milk Supply Framework Agreement

2.1.1 The 2026 Dabeinong Products and Services Supply Framework Agreement

- Purchase of Materials — the 2023 Dabeinong Group Materials Supply Framework Agreement

To enable the Group to secure stable supply of animal feed products for its normal business operations at a fair, reasonable and competitive price, the Group entered into materials supply framework agreements with Dabeinong Group since 2016 with consecutive renewals.

In anticipation of the annual transaction amount between the Group and Dabeinong Group for the two years ended 31 December 2023 and 2024 would exceed the annual caps pre-determined under the 2022 Dabeinong Group Materials Supply Framework Agreement¹, the 2023 Dabeinong Group Materials Supply Framework Agreement was entered into between Shengmu High-tech and Dabeinong Group in respect of the Group's purchase of materials from Dabeinong Group for a term commencing from 1 January 2023 and ending on 31 December 2025. Details of which were set out in a circular of the Company dated 14 September 2023 and the transactions contemplated under the 2023 Dabeinong Group Materials Supply Framework Agreement were approved by the then independent Shareholders at an extraordinary general meeting of the Company held on 29 September 2023.

- Purchase of Milk Powder — 2025 Yiyongmei Dairy Milk Powder Purchase Framework Agreement

The 2024 Yiyongmei Dairy milk powder purchase framework agreement dated 28 March 2024 was entered into between Shengmu High-tech and Yiyongmei Dairy, in relation to the sale of milk powder by Yiyongmei Dairy to Shengmu High-tech, for a term commencing from 28 March 2024 and ending on 31 December 2025. Details of which were set out in an announcement of the Company dated 28 March 2024.

As the Company anticipates an increased demand for milk powder from Yiyongmei Dairy, on 27 August 2025, Shengmu High-tech and Yiyongmei Dairy entered into the 2025 Yiyongmei Dairy Milk Powder Purchase Framework Agreement, in relation to the sale of milk powder by Yiyongmei Dairy to Shengmu High-tech, for a term commencing from 28 August 2025 and ending on 31 December 2026. Details of which were set out in an announcement of the Company dated 27 August 2025.

- Processing Services — 2024 Processing Service Framework Agreement

On 28 March 2024, Shengmu High-tech entered into the 2024 Processing Service Framework Agreement with Yiyongmei Dairy, in relation to the provision of processing services by Yiyongmei Dairy in respect of the production of milk powder, for the Group for a term commencing from 28 March 2024 and ending on 31 December 2026. Details of which were set out in an announcement of the Company dated 28 March 2024.

- Section conclusion

As the 2023 Dabeinong Group Materials Supply Framework Agreement will expire on 31 December 2025, in order to enable the Group to secure quality and safety of materials supply for its normal business operations, there is a need for the Company to renew such agreement before 31 December 2025.

¹ The materials supply framework agreement dated 28 March 2022, entered into between Shengmu High-tech and Dabeinong Group, in relation to the supply of materials (including but not limited to feed, additives and medicines) by Dabeinong Group to Shengmu High-tech for a term ending 31 December 2025. Details were set out in an announcement of the Company dated 23 March 2022.

Although the existing framework agreements to manage the Purchase of Milk Powder and the Yiyongmei Processing Services will expire by 31 December 2026, the Management believes and we concur that by consolidating the framework agreements under a single framework agreement (i.e. the 2026 Dabeinong Products and Services Supply Framework Agreement) is easier to manage going forward and a practical approach.

Accordingly, on 19 November 2025, for the purpose of replacing the 2023 Dabeinong Group Materials Supply Framework Agreement and for the purpose of efficient management of Purchase of Milk Powder and Yiyongmei Processing Services, the Company, Dabeinong Group and Yiyongmei Dairy entered into the 2026 Dabeinong Products and Services Supply Framework Agreement.

Shareholders should note that the 2024 Processing Service Framework Agreement and the 2025 Yiyongmei Dairy Milk Powder Purchase Framework Agreement will be terminated immediately upon the 2026 Dabeinong Products and Services Supply Framework Agreement coming into effect.

2.1.2 The 2026 Raw Fresh Milk Supply Framework Agreement

The 2023 Raw Fresh Milk Supply Framework Agreement dated 17 November 2022 was entered into between Shengmu High-tech and Inner Mongolia Mengniu for a term commencing from 1 January 2023 and ending on 31 December 2025.

As the 2023 Raw Fresh Milk Supply Framework Agreement will expire on 31 December 2025, in order to enable the Group to secure sales volume of raw fresh milk and generate stable income and cash flow for the Group, it is natural and essential for Shengmu High-tech to renew such agreement before 31 December 2025.

Accordingly, on 24 November 2025, for the purpose of replacing the 2023 Raw Fresh Milk Supply Framework Agreement, Shengmu High-tech and Inner Mongolia Mengniu entered into the 2026 Raw Fresh Milk Supply Framework Agreement.

2.2 The 2026 Dabeinong Products and Services Supply Framework Agreement

As described in the paragraph headed “1.1 Principal businesses of the Group and connected persons” above, (i) the Group is principally engaged in dairy farming and the sale of raw milk as well as trading milk powder for export; (ii) Dabeinong Group is a leading dairy farming materials provider and one of the largest feed pre-mix enterprises in the PRC; and (iii) Yiyongmei Dairy specialises in the production of organic infant and other formula milk powder. The close co-operation between the Group and Dabeinong Group (including Yiyongmei Dairy) enables the Group to secure stable supply of quality Dabeinong Products for its normal business operations at a fair, reasonable and competitive price, which is essential for the Group’s operations (i.e. the production of high quality raw milk and the sale of milk powder).

As Dabeinong Group allows the Group to take advantage of cost advantages and procurement efficiencies generated under Dabeinong Group's and Yiyongmei Dairy's centralized procurement platform, the Group will be able to efficiently source (through Dabeinong Group and Yiyongmei Dairy) to Purchase of Dabeinong Products from a network of suppliers around the world and collect market information on raw material demand and supply in a timely manner, which in turn, reduce the Group's administrative costs associated with procurement of products and services. Further, by procuring Dabeinong Products via Dabeinong Group's and Yiyongmei Dairy's centralized procurement platform, the Group may be able to enjoy the benefit from any bulk purchase discounts available to Dabeinong Group and Yiyongmei Dairy, which would in turn reduce the Group's overall operational cost level.

As mentioned in the 2024 Annual Report, due to the challenging conditions, intense competition and other uncertainties in the raw milk market, the Group has adopted a cautious approach for and developed a business model to mitigate potential market risks. Under this business model, the Management believes and we concur that the selection of Dabeinong Group and Yiyongmei Dairy as co-operative partners is in line with the principle of maximizing the Group's benefits in terms of both cost-effectiveness and product quality.

In addition, in order to alleviate the pressure from the continuous downward cycle of the raw milk industry, the Company has proactively explored raw milk sales channels and also consolidating milk powder sales channel. Since August 2025, the Company promoted its milk powder export trade business and has been successful in distributing high-quality milk powder to international customers.

Given Yiyongmei Dairy is in close proximity to Shengmu High-tech in Inner Mongolia, which gives it an advantage in transportation and cost efficiency, thus preserving the products' freshness and quality. Thus, the Management believes and we concur that by procuring Yiyongmei Processing Services from Yiyongmei Dairy, the Group will be able to preserve its products' freshness and quality for the safety of the Milk Powder in a cost-efficient manner, which aligns with the Group's strategy to expand product line and distribute high-quality milk powder to international customers.

In view of the above, we concur with the Management's view that the entering into of the 2026 Dabeinong Products and Services Supply Framework Agreement is in the interests of the Company and the Shareholders as a whole.

2.3 The 2026 Raw Fresh Milk Supply Framework Agreement

The Company believes that a raw fresh milk supply relationship with China Mengniu Group (taking into account, among other things, the Group's commitment to supply on average more than 80% of the raw fresh milk it produces in each year to China Mengniu Group) will help to stabilise the price and sales volume of raw fresh milk and generate stable income and cash flow for the Group.

The Group's dairy farms are primarily located in Hohhot and Bayannur, enabling short transportation distances (generally less than approximately 80 km between the dairy farms of the Group and the dairy products manufacturing facilities of China Mengniu Group) that help preserve the freshness of raw fresh milk. This proximity not only enhances the quality of milk products manufactured by China Mengniu Group but also reduces transportation and preservation costs, making the Group's raw fresh milk more competitively priced compared to other suppliers.

While maintaining its focus on the production and sale of desert-based organic milk, the Group is also committed to meeting the diverse needs of its customers by developing a range of functional raw milk products. Through its collaboration with China Mengniu Group — particularly in marketing and distribution — the Group anticipates increased demand for desert-based organic milk. This partnership is expected to raise brand awareness and drive sales growth for the Group’s milk products.

We noted that the revenue generated from the sales of raw fresh milk by the Group to China Mengniu Group had been substantial and had accounted for a significant majority of the revenue of the Group in FY2023 (approximately RMB3,226.1 million, representing approximately 95.3% of the Group’s total revenue in FY2023), FY2024 (approximately RMB2,917.7 million, representing approximately 93.3% of the Group’s total revenue in FY2024) and 1H2025 (approximately RMB1,284.5 million, representing approximately 88.9% of the Group’s total revenue in 1H2025). We also noted that such arrangement (i) secured a continuing demand for the raw fresh milk produced by the Group; (ii) provided a regular revenue stream to the Group; and (iii) the price of raw fresh milk sold to China Mengniu Group was no less favourable to the Group than the price offered from independent third party customers (as described in the section headed “4.1 Key terms of the 2026 Raw Fresh Milk Supply Framework Agreement” below).

In addition, over the years, the Group had successfully established business relationship with a number of third party dairy product manufacturers in China, including New Hope Dairy Co., Ltd, Junlebao Dairy Group Co., Ltd. and Adopt A Cow Holding Group Co., Ltd and the sales volume to third party dairy product manufacturers in China had been increasing from approximately 32,000 tonnes in FY2023 to approximately 66,000 tonnes in FY2024 (representing a year-on-year increase of approximately 106%). For the nine months ended 30 September 2025, the sales volume to third party dairy product manufacturers in China already achieved approximately 95,000 tonnes. In short, should there be any change to the business relationship between the Group and China Mengniu Group, the Board believes the raw fresh milk produced by the Group can be sold to other major customers in the region.

Taking into account the above, we concur with the Management’s view that the entering into of the 2026 Raw Fresh Milk Supply Framework Agreement is in the interests of the Company and the Shareholders as a whole.

In evaluating whether the transactions contemplated under the 2026 Raw Fresh Milk Supply Agreement would result in material reliance on the China Mengniu Group, we have considered the following factors:

1. **Revenue trend** — The proportion of revenue (in monetary term) generated from the sales of raw fresh milk by the Group to China Mengniu Group in FY2023, FY2024 and 1H2025 accounted for approximately 95.3%, 93.3% and 88.9% of the Group’s total revenue for the respective periods, indicating a decreasing trend.
2. **Customer diversification** — The Group has successfully broadened its customer base by establishing relationships with third party dairy product manufacturers in China. Sales volume to these customers have grown significantly from 32,000 tonnes in FY2023 to 66,000 tonnes in FY2024 and further to 95,000 tonnes in the nine months ended 30 September 2025.

3. **Product diversification** — In terms of the Group's diversified product portfolio, the Group has developed a variety of functional raw milk to meet diversified demand for raw milk, such as DHA raw milk, A2 raw milk and organic A2 raw milk, which form a part of the raw milk products to be supplied to the third party dairy product manufacturers in China.
4. **Industry concentration** — China's liquid milk market remains highly concentrated and dominated by major players, such as, China Mengniu Group. Given China Mengniu Group's leading position, it is expected that China Mengniu Group will continue to be a key customer for the Group's raw milk supply.
5. **Mutually benefit** — so far as was known to the Company up to the Latest Practicable Date, desert-based organic milk is one of the product lines offered by China Mengniu Group and the Group is the largest desert-based organic raw milk producer in China. Accordingly, the supply relationship between the Group and China Mengniu Group is essential to the production and sales of China Mengniu Group's organic milk products, including but not limited to the desert-based organic milk product line. As China Mengniu Group continues to promote and sell its desert-based organic milk products, this would enhance market awareness of and demand for desert-based organic milk, which would in turn increase China Mengniu Group's demand for desert-based organic raw milk and benefit the Group's sales growth.
6. **Strategical advantageous** — due to the geographical proximity of the dairy farms of the Group and the dairy products manufacturing facilities of China Mengniu Group, the Group is able to lower the Group's costs of transportation and preservation and make the price of raw fresh milk supplied by the Group more competitive as compared to other suppliers of raw fresh milk. This cost advantage benefits both the Group and China Mengniu Group, creating a fundamental economic rationale for maintaining the relationship, thereby reducing the risk of the business relationship between the Group and China Mengniu Group being materially adversely changed or terminated; and

While the Group does maintain high level of business with China Mengniu Group, we are of the view that this business relationship is both mutual and strategically advantageous. It is noted that the Group has supplied raw fresh milk to China Mengniu Group consecutively in the past six years, it has not raised any material concern or complaint relating to the Group's supply of raw fresh milk in the past six years and the mutual intention to deepen the business relationship as evidenced by the entering into of the 2026 Raw Fresh Milk Supply Framework Agreement. Hence, we concur with the Management that the likelihood of a significant adverse change to the business relationship with China Mengniu Group to be relatively low. In addition, with the effective internal control measures put in place and the disclosure of relevant information from time to time, we are of the view that the interests of the Company and the Shareholders are safeguarded, even in light of the high level of business associated with this strategic relationships.

3. Analysis of the 2026 Dabeinong Products and Services Supply Framework Agreement

To assess the fairness and reasonableness of the terms of the 2026 Dabeinong Products and Services Supply Framework Agreement, we have considered the followings.

3.1 Key terms of the 2026 Dabeinong Products and Services Supply Framework Agreement

For details of the terms of the 2026 Dabeinong Products and Services Supply Framework Agreement, please refer to the “Letter from the Board” of the Circular. In particular, we have reviewed the following principal terms:

- (i) The amount of products purchased and services required shall be the actual demand based on the written orders (with specifications, quantity and related quality, delivery and other services) placed by the Group with Dabeinong Group and Yiyongmei Dairy.

We have performed random sample checks as further elaborated in the paragraph headed “3.2 Internal control measures” below and noted that the amount of products and services purchased are being charged according to the written orders placed by the Group with Dabeinong Group and Yiyongmei Dairy.

We also noted that there is no minimum order requirement set by Dabeinong Group and Yiyongmei Dairy and there is no obligation for the Group to purchase up the maximum amount (i.e. the proposed annual caps) as described in the 2026 Dabeinong Products and Services Supply Framework Agreement.

- (ii) Purchase price of the products and services shall be based on the prevailing market price at the time of each purchase order submitted by the Company to Dabeinong Group or Yiyongmei Dairy. Dabeinong Group and Yiyongmei Dairy undertake to sell at a price which is no higher than the market price of similar products and services. For the purpose of determining the prevailing market price, the Company shall request quotations from at least two independent suppliers (excluding Dabeinong Group and Yiyongmei Dairy). If the price of the product supplied by Dabeinong Group and Yiyongmei Dairy in the same period is higher than the market price of the product or the price supplied by Dabeinong Group and Yiyongmei Dairy to a third party, Shengmu High-tech shall have the right to adjust the price of an executed order, and Dabeinong Group and Yiyongmei Dairy agree that the Company may deduct the difference from the payment due to Dabeinong Group and Yiyongmei Dairy.

The Company will review the price, quality and safety of the products and services from time to time to ensure that the products and services are in line with the Group’s stringent standards and beneficial to the well-being of the Group’s dairy cows, as well as to ensure that the transaction terms are fair and reasonable.

We have performed random sample checks as further elaborated in the paragraph headed “3.2 Internal control measures” below and noted that the Company had obtained quotations from two independent suppliers for materials and services or by reference to publicly available source data prior to placing the orders. We have compared such quotations/prices with the purchase price offered by Dabeinong Group and Yiyongmei Dairy and noted that such purchase price is no less favourable to the Group than those offered by independent third parties or by reference to publicly available source data.

Taking into account the above, in particular, (i) the Company will obtain at least two quotations or by reference to publicly available source data for its purchases and keep track of the market prices of its required products and services from time to time for reference; and (ii) there is a mechanism to adjust the purchase price downward as mentioned above, we are of the view that the basis to determine the purchase price is fair and reasonable.

- (iii) Payment shall be settled in cash in accordance with the terms set out in the individual order contract.

We have performed random sample checks as further elaborated in the paragraph headed “3.2 Internal control measures” below and noted that the payment was made according to the written orders placed by the Company with Dabeinong Group and Yiyongmei Dairy and similar to the payment terms made by the Group with independent third party suppliers.

In light of the above, (i) the amount purchased is based on the actual written orders; (ii) the guarantee delivery by Dabeinong Group and Yiyongmei Dairy provide an assurance to the Company on the continued supply of products and services, which is essential for its operation; (iii) there is no obligation for the Company to order the maximum quantity of products and services; (iv) the purchase price offered by Dabeinong Group and Yiyongmei Dairy is no less favourable to the Group than those offered by independent third suppliers; and (v) the payments are settled in cash in accordance with the terms set out in the individual order contract and similar to the payment terms made by the Group with independent third party suppliers, we consider the terms of the 2026 Dabeinong Products and Services Supply Framework Agreement are on normal commercial terms and are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

3.2 Internal control measures

We have obtained and reviewed the Group’s internal control procedures and noted that the compliance team of the Group will monitor connected transactions with an emphasis on, among others, (i) maintenance of a list of connected persons and connected transactions; (ii) identifying connected transactions with the assistance of various departments and external legal advisors; (iii) analysis on aggregating connected transactions and managing any aggregated transaction amounts; and (iv) monitoring utilisation of annual caps of continuing connected transactions on a monthly basis. In this regard, as mentioned in the paragraph headed “3.1 Key terms of the 2026 Dabeinong Products and Services Supply Framework Agreement” above, we have checked:

- the top five purchase orders and an additional five randomly selected purchase orders placed for the Purchase of Materials for the two years ended 31 December 2024 and for the nine months ended 30 September 2025 (i.e. a total of 30 purchase orders) and cross-checked the pricing against the same materials from independent third party suppliers obtained through the Company’s quotation system;
- all seven purchase orders placed for the Purchase of Milk Powder for the year ended 31 December 2024 and for the six months ended 30 June 2025 and cross-checked the pricing against the same products as quoted from publicly available source data (<https://www.dairyonline.cn/>); and
- the one and only purchase order placed for the Yiyongmei Processing Services during the year ended 31 December 2024 and cross-checked the pricing against the same services from independent third party suppliers obtained through the Company’s quotation system.

Considering that the transaction samples obtained and reviewed (i) cover the period of the 2023 Dabeinong Group Materials Supply Framework Agreement, the 2025 Yiyongmei Dairy Milk Powder Purchase Framework Agreement and the 2024 Processing Service Framework Agreement; and (ii) include various types of materials and services provided by the Group under the aforesaid agreements, we believe that the sample size of the transaction samples is fair and representative and sufficient to illustrate that the Group's internal control policies and procedures have been adhered to and comply with the pricing mechanism as prescribed in the aforesaid agreements.

We noted that the pricing mechanism had been adhered to with and the prices of the products and services offered by Dabeinong Group and Yiyongmei Dairy were either the same or better than those offered by the independent third party suppliers.

We also noted that the Group has internal control procedures to obtain quotation(s) from independent materials supplier(s) or by reference to publicly available source data prior to placing purchase orders with Dabeinong Group and Yiyongmei Dairy. In this regard, as discussed in the paragraph headed "3.1 Key terms of the 2026 Dabeinong Products and Services Supply Framework Agreement" above, we understand that the Company has obtained quotations from at least two independent suppliers or cross-checked by reference to publicly available source data. We have sighted quotations on similar products obtained by the Group or market prices based on the publicly available source data and noted that the purchase prices offered by Dabeinong Group and Yiyongmei Dairy are no less favourable to the Group than those offered by independent third party suppliers.

In addition, the audit committee of the Board will conduct annual review of the transactions contemplated under the 2026 Dabeinong Products and Services Supply Framework Agreement to ensure completeness and effectiveness of the internal control measures relating to the continuing connected transactions of the Group. In this regard, we note from the 2024 Annual Report that the external auditors of the Company and the independent non-executive Directors had conducted annual review of the continuing connected transactions contemplated under the 2023 Dabeinong Group Materials Supply Framework Agreement and there were no adverse findings under such annual review.

In view of the above, we concur with the Management's view that the Group's internal control measures in relation to the transactions contemplated under the 2026 Dabeinong Products and Services Supply Framework Agreement and the monitoring of the annual caps is effective and sufficient.

3.3 The proposed annual caps

To assess the fairness and reasonableness of the proposed annual caps relating to the Transactions contemplated under the 2026 Dabeinong Products and Services Supply Framework Agreement, we have considered the followings:

3.3.1 Historical annual caps

Below is a table setting out (i) the historical transaction amounts; (ii) the historical annual caps as prescribed in the 2023 Dabeinong Group Materials Supply Framework Agreement, the 2025 Yiyongmei Dairy Milk Powder Purchase Framework Agreement and the 2024 Processing Service Framework Agreement; and (iii) the actual transaction amount for the years ended 31 December 2023 and 2024 and the nine months ended 30 September 2025 respectively.

Table 2

	For the year ended 31 December		For the year ending 31 December	
	2023	2024	2025	2026
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Purchase of Materials				
Historical annual caps under the 2023 Dabeinong Group Materials Supply Framework Agreement	300	300	300	NA
Actual purchased	211.5	247.8	204.0 (Note 1)	NA
Utilisation rate	70.5%	82.6%	68.0% (Note 2)	NA
Purchase of Milk Powder				
Historical annual caps under the 2025 Yiyingmei Dairy Milk Powder Purchase Framework Agreement	NA	30	115	115
Actual purchased	NA	1.5	44.8 (Note 1)	NA
Utilisation rate	NA	5.0%	39.0% (Note 2)	NA
Total Purchase of Dabeinong Products annual caps	NA	330	415	NA
Yiyingmei Processing Services				
Historical annual caps under the 2024 Processing Service Framework Agreement	NA	21	17	11
Actual purchased	NA	2.6	0.0 (Note 1)	NA
Utilisation rate	NA	12.4%	0.0% (Note 2)	NA
Total historical annual caps	NA	351	432	NA

Notes:

1. The actual purchased amount is for the nine months ended 30 September 2025.
2. The utilisation rate for the year ending 31 December 2025 is calculated based on the actual transaction amount for the nine months ended 30 September 2025 and divided by the annual cap for the year ending 31 December 2025.

As shown in Table 2 above, the utilisation rates of historical annual caps for Purchase of Materials were relatively high at approximately 70.5%, 82.6% and 68.0% for the years ended 31 December 2023 and 2024 respectively and for the nine months ended 30 September 2025. The increase between FY2023 and FY2024 was due mainly to the number of cows raised by the Group as shown in Table 1 above. The actual amount of purchase for the nine months ended 30 September 2025 was about the same as the amount purchased for the year ended 31 December 2023 due to similar number of cows raised by the Group. Assuming the number of cows raised by the Group are steady during the year ending 31 December 2025, the annualized utilisation rate of Purchase Materials for the year ending 31 December 2025 would be approximately 90.7%.

As shown in Table 2 above, the utilisation rate of historical annual cap for Purchase of Milk Powder was relatively low at approximately 5.0% for the year ended 31 December 2024. This phenomenon was due to the price for milk powder in China was under intensive competition in the past few years, the need to source milk powder from Yiyongmei Dairy or milk powder processed by Yiyongmei Dairy (as the Group's service provider) was low. As the Group expanded its milk powder export trade since August 2025, the utilisation rate of historical annual cap for Purchase of Milk Powder for the nine months ended 30 September 2025 rose to approximately 39.0%.

As shown in Table 2 above, the utilisation rate of historical annual cap for Process Service was relatively low at approximately 12.4% for the year ended 31 December 2024. This phenomenon was due to the price for milk powder in China was under intensive competition in the past few years, the need to procure Yiyongmei Processing Services to process milk powder from Yiyongmei Dairy (as the Group's service provider) was low. In addition, as there were demand for the Group's raw fresh milk, the Group would opt to sell raw fresh milk to satisfy their customers' demand rather than procuring Yiyongmei Processing Services to produce milk powder. In other words, the Group would procure Yiyongmei Processing Services to produce milk powder due to having excess raw fresh milk. Since there were no excess raw fresh milk for the nine-months ended 30 September 2025, the utilisation rate of historical annual cap for Yiyongmei Processing Services for such period was 0.0%.

3.3.2 The Proposed Annual Caps

The table below sets out the Proposed Annual Caps in relation to the Transactions contemplated under the 2026 Dabeinong Products and Services Supply Framework Agreement.

Table 3

	For the year ending 31 December		
	2026	2027	2028
	RMB' million	RMB' million	RMB' million
Proposed annual caps for Purchase of Dabeinong Products:			
— relating to Purchase of Materials	415	430	445
— relating to Purchase of Milk Powder	300	300	300
	115	130	145
Proposed annual caps for Yiyongmei Processing Services	17	11	11
Total proposed annual caps	432	441	456

In determining the proposed annual caps for the three years ending 31 December 2026, 2027 and 2028 in relation to the Purchase of Dabeinong Products and Yiyongmei Processing Services by the Group from Dabeinong Group and Yiyongmei Dairy, we noted that the Directors have considered:

3.3.2.1 Purchase of Materials

In short, the proposed annual caps are derived by multiplying the number of cows to be raised by the Group with the types of materials required for raising the herd and the expected prices of the materials. In particular, we have considered and observed the following factors:

- (i) the amount of past transactions for similar materials purchased by the Group from Dabeinong Group;

We have reviewed the historical actual transaction amount and the relatively high utilisation rate of the historical annual caps as described in the section headed “3.3.1 Historical annual caps” above. We considered the historical amount to be a fair and reasonable reference for determining the proposed annual caps for the Purchase of Materials.

- (ii) the Group’s expected number of cows for the three years ending 31 December 2026, 2027 and 2028 respectively;

As described in the section headed “1.2 Key historical data of the Group” above, we noted the number of cows raised by the Group remained steady in FY2023, FY2024 and 1H2025 (on average 150,000 heads). In addition, we understand from the Management that the number of cows raised and to be raised by the Group will remain steady going forward. Hence, we considered the Management using the historical number of cows raised by the Group to derive the expected demand for materials for the three years ending 31 December 2026, 2027 and 2028 respectively as fair and reasonable.

- (iii) the expected demand for materials based on the Group’s strategic plans for the three years ending 31 December 2026, 2027 and 2028 respectively; and

As described in the section headed “1.2 Key historical data of the Group” above, we noted that the Group would continue to optimise feed nutrition formulas and implemented precision feeding based on the different growth stages and production needs of dairy cows. We have reviewed the historical breakdown of the Purchase of Materials (in terms of the types of feeds, additives, their quantity) and considered the Management using such historical data and with reference to the expected number of cows to be raised by the Group to derive the expected demand for materials for the three years ending 31 December 2026, 2027 and 2028 respectively as fair and reasonable.

- (iv) the historical and current market prices of similar materials supplied by Dabeinong Group and other independent suppliers; and the possible future fluctuation in the PRC dairy farming industry.

As described in the section headed “1.2 Key historical data of the Group” above, the Group’s cost of sales had been successfully controlled with slight reduction due to the herd size and lower cost of the feeds and related products. We noted that in order to further enhance milk yield based on the existing herd size, the composition of various materials will be adjusted for efficiency and effectiveness. We have reviewed the historical and current market prices of the materials and the expected composition of materials and considered the Management using such data and with reference to the expected number of cows to be raised by the Group to derive the expected demand for materials for the three years ending 31 December 2026, 2027 and 2028 respectively as fair and reasonable.

Based on the actual purchase amount of approximately RMB204 million for the nine months ended 30 September 2025, the projected annual amount of Purchase of Materials for the year ending 31 December 2025 is estimated at around RMB271 million. We considered that it is fair and reasonable for the Management to accommodate potential fluctuations inherent in the PRC farming industry with a headroom of approximately 10% on the proposed amount relating to Purchase of Materials so as to cater for the anticipated growth in herd size as described in the “Letter from the Board” (supported by the Group’s historical annual birth rate of the herd of about 7%), as well as the expected increases in material costs, aligned with a 5.3% year-on-year GDP growth for the first half of 2025 reported by China’s National Bureau of Statistics.

3.3.2.2 Purchase of Milk Powder

In short, the proposed annual caps are derived by multiplying the projected demand for milk powder and the expected prices of the milk powder. In particular, we have considered and observed the following factors:

- (i) the amount of past transactions for milk powder purchased by the Group (from Yiyongmei Dairy as well as other suppliers);

We have reviewed the historical actual transaction amount and the reason for the low utilisation rate of the historical annual caps as described in the section headed “3.3.1 Historical annual caps” above. Notwithstanding the small historical amount in FY2024, such amount represents the domestic sale of milk powder by the Group. With the Group commenced to conduct export trade milk powder business in August 2025, the utilisation rate of the historical annual cap rose to approximately 39%. We considered such historical data to be a fair and reasonable reference when determining the proposed annual caps for the Purchase of Milk Powder.

- (ii) the Group’s business plan, sales forecast and internal projections of the demand for export trade milk powder for the three years ending 31 December 2026, 2027 and 2028 respectively; and

We have reviewed the Group’s business plan, in particular, in relation to the sales forecast and internal projections of the demand for export trade milk powder for the three years ending 31 December 2026, 2027 and 2028 respectively. Taking into account the actual transactions amount of export trade milk powder for the two months ended 30 September 2025 and the Company has proactively explored export trade milk powder sales channel

with different overseas customers to derive their internal projections, we considered such data to be a fair and reasonable reference when determining the proposed annual caps for the Purchase of Milk Powder.

- (iii) the historical and current market prices of milk powder of similar quality, as well as the potential fluctuation in the market price for milk powder in the future; and the possible future fluctuation in the PRC dairy farming industry.

We have reviewed the historical and current market prices of milk powder of similar quality and noted that the prices were relatively stable with a gradual increasing trend. Accordingly, we are of the view that the Management uses such historical data and with reference to the sales forecast to derive the expected demand for milk powder for the three years ending 31 December 2026, 2027 and 2028 respectively as fair and reasonable.

Based on the actual purchase amount of approximately RMB44.8 million for milk powder export during the two months ended 30 September 2025, the annualised amount of Purchase of Milk Powder may exceed RMB260 million. This reflects the strong momentum following the Group's successful entry into the export trade milk powder business in August 2025 and its proactive efforts to establish sales channel with different overseas customers. In light of this growth trajectory, we concur with the Management's proposal to set an expected amount of Purchase of Milk Powder of RMB115 million for the three years ending 31 December 2026, 2027 and 2028. This expected amount representing less than half of the annualised amount of Purchase of Milk Powder, provides a fair and reasonable framework that balances anticipated expansion with effective management.

3.3.2.3 Yiyongmei Processing Services

In short, the proposed annual caps are derived by multiplying the projected demand for processing service and the expected price of the processing service. In particular, we have considered and observed the following factors:

- (i) the Group's business plan, sales forecast and internal projections of the demand for export trade milk powder for the three years ending 31 December 2026, 2027 and 2028 respectively;

We have reviewed the Group's business plan, in particular, in relation to the sales forecast and internal projections of the demand for export trade milk powder for the three years ending 31 December 2026, 2027 and 2028 respectively. Based on such data, the Management estimates the amount of milk powder to be purchased from external suppliers and the amount of raw fresh milk produced by the Group that may be available and require to procure Yiyongmei Processing Services to produce milk powder.

- (ii) the amount of past transactions for processing service required by the Group (from Yiyongmei Dairy as well as other suppliers); and

We have reviewed the historical transaction amounts and the reasons behind the low utilisation rates of the annual caps, as described in section "3.3.1 Historical annual caps" above. Although the utilisation rates in FY2024 and the nine months ended 30 September 2025 were relatively low, primarily due to the limited volume of excess raw fresh milk produced by the Group that required Yiyongmei Processing Services from Yiyongmei Dairy,

we considered that it is fair and reasonable for the Group to maintain certain capacity for such Yiyongmei Processing Services. This ensures flexibility in situations where excess raw fresh milk produced by the Group cannot be promptly absorbed by the Group's dairy product manufacturers.

Based on the historical average annual output volume of raw fresh milk produced during the past two years ended 31 December 2024 and the nine months ended 30 September 2025 of approximately 750,000 tonnes, the estimated amount of raw fresh milk produced by the Group which may require to procure Yiyongmei Processing Services during each of the three years ending 31 December 2028 is less than 0.5% (3,400 tonnes in 2026, 2,200 tonnes in 2027 and 2,200 tonnes in 2028) of the expected average annual production output volume of raw fresh milk of the Group. As a contingency measure and the Yiyongmei Processing Services provide the Group with flexibility to convert its excess raw fresh milk produced by the Group that cannot be promptly absorbed by the Group's dairy product manufacturers to milk powder, we are of the view that by adopting such estimated amount of raw fresh milk which may require processing services as fair and reasonable.

- (iii) the historical and current market prices for processing service, as well as the potential fluctuation in the future; and the possible future fluctuation in the PRC dairy farming industry.

We have reviewed the historical and current market prices of Yiyongmei Processing Services (about RMB4,700 per tonne). Accordingly, we are of the view that the Management uses such historical data and with reference to the sales forecast to derive the expected demand for Yiyongmei Processing Services for the three years ending 31 December 2026, 2027 and 2028 respectively as fair and reasonable.

Taking into account above, we are of the view that the proposed annual caps for Purchase of Dabeinong Products and Yiyongmei Processing Services are fair and reasonable.

4. Analysis of the 2026 Raw Fresh Milk Supply Framework Agreement

To assess the fairness and reasonableness of the terms of the 2026 Raw Fresh Milk Supply Framework Agreement, we have considered the followings.

4.1 Key terms of the 2026 Raw Fresh Milk Supply Framework Agreement

For details of the terms of the 2026 Raw Fresh Milk Supply Framework Agreement, please refer to the "Letter from the Board" of the Circular. In particular, we have reviewed the following principal terms:

- (i) The amount of raw fresh milk to be supplied by the Group to China Mengniu Group shall be agreed in advance based on a monthly milk supply plan and the daily delivery amount is determined by the amount as weighted by China Mengniu Group.

We have performed random sample checks as further elaborated in the paragraph headed "4.2 Internal control measures" below and noted that the amount of raw fresh milk was supplied according to the agreed monthly milk supply plan.

We also noted that there is a commitment made by the Group to China Mengniu Group, whereby the Group will ensure that on average more than 80% of the raw fresh milk it produces in each year will be sold to China Mengniu Group. We have reviewed the sales volume and the amount supplied China Mengniu and noted that it had fulfilled this requirement.

- (ii) Payment shall be settled in cash on a monthly basis in accordance with the purchase amount of raw fresh milk.

We have performed random sample checks as further elaborated in the paragraph headed “4.2 Internal control measures” below and noted that the payment was made according to the purchased amount of raw fresh milk and similar to the payment terms made by the Group with independent third party customers.

- (iii) Purchase price and pricing mechanism

The purchase price of raw fresh milk to be sold by the Group to China Mengniu Group under the Raw Fresh Milk Supply Framework Agreement shall be determined by aggregating the Base Price (as defined in the “Letter from the Board”) and the logistic subsidy (as detailed in the “Letter from the Board”) and adjusted by the Adjustments (as defined in the “Letter from the Board”).

We have performed random sample checks as further elaborated in the paragraph headed “4.2 Internal control measures” below and noted that the purchase price was determined by reference to the Base Price at the relevant time and adjusted by logistical subsidy and the quality and rating of raw fresh milk (by reference to the level of protein, fat contents, somatic cell count, microorganism count and freezing point).

In light of the above, (i) the amount supplied is based on the pre-agreed monthly milk supply plan; (ii) the purchase price and the pricing mechanism offered by China Mengniu Group is no less favourable to the Group than those offered by independent third customers; and (iii) the payments are settled in cash on a monthly basis and similar to the payment terms made by other independent third party customers with the Group, we consider the terms of the 2026 Raw Fresh Milk Supply Framework Agreement are on normal commercial terms and are fair and reasonable and are in the interests of the Company and the Independent Shareholders as a whole.

4.2 Internal control measures

In view of the general monitoring measures as described in the section headed “3.2 Internal control measures” above, and as mentioned in the paragraph headed “4.1 Key terms of the 2026 Raw Fresh Milk Supply Framework Agreement” above, we have checked:

- the top five orders and an additional five randomly selected orders placed under the 2023 Raw Fresh Milk Supply Framework Agreement for each of the year ended 31 December 2023, 2024 and for the nine months ended 30 September 2025 (i.e. a total of 30 transaction samples) and cross-checked the pricing against the same types of raw fresh milk supplied for independent third party customers obtained through the Company’s quotation system.

Considering that the transaction samples obtained and reviewed (i) cover the period of the 2023 Raw Fresh Milk Supply Framework Agreement; and (ii) include various types of raw fresh milk by the Group under the aforesaid agreement, we believe that the sample size of the transaction samples is fair and representative and sufficient to illustrate that the Group's internal control policies and procedures have been adhered to and comply with the pricing mechanism as prescribed in the aforesaid agreement.

We noted that the pricing mechanism had been adhered to with and the prices of the raw fresh milk offered by the Group to China Mengniu Group was either the same or no more favourable than those offered by the independent third party customers.

In addition, the audit committee of the Board will conduct annual review of the transactions contemplated under the 2026 Raw Fresh Milk Supply Framework Agreement to ensure completeness and effectiveness of the internal control measures relating to the continuing connected transactions of the Group. In this regard, we note from the 2024 Annual Report that the external auditors of the Company and the independent non-executive Directors had conducted annual review of the continuing connected transactions contemplated under the 2023 Raw Fresh Milk Supply Framework Agreement and there were no adverse findings under such annual review.

In view of the above, we concur with the Management's view that the Group's internal control measures in relation to the transactions contemplated under the 2026 Raw Fresh Milk Supply Framework Agreement and the monitoring of the annual caps are effective and sufficient.

4.3 The proposed annual caps

To assess the fairness and reasonableness of the proposed annual caps relating to the Transactions contemplated under the 2026 Raw Fresh Milk Supply Framework Agreement, we have considered the followings.

4.3.1 Historical annual caps

Below is a table setting out (i) the historical transaction amounts; (ii) the historical annual caps; and (iii) the actual transaction amount for the years ended 31 December 2023 and 2024 and the nine months ended 30 September 2025 respectively.

Table 4

	For the year ended/ending 31 December		
	2023	2024	2025
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Historical annual caps for Supply of Raw Fresh Milk	3,400	4,300	5,000
Actual transaction amount	3,226.1	2,917.7	1,921.1
			<i>(Note 1)</i>
Utilisation rate	94.9%	67.9%	38.4%
			<i>(Note 2)</i>

Notes:

1. The actual purchased amount is for the nine months ended 30 September 2025.
2. The utilisation rate for the year ending 31 December 2025 is calculated based on the actual transaction amount for the nine months ended 30 September 2025 and divided by the annual cap for the year ending 31 December 2025.

As shown in the table above, the utilisation rates of historical annual caps for Supply of Raw Fresh Milk were relatively high at approximately 94.9%, 67.9% and 38.4% for the years ended 31 December 2023 and 2024 respectively and for the nine months ended 30 September 2025. The decrease in monetary term between FY2023 and FY2024 was due mainly to the continuous decline in the selling prices of raw milk as described in the section headed “1.2 Key historical data of the Group” above. This decreasing trend in monetary term continued in the nine months ended 30 September 2025. However, we noted that the volume of raw fresh milk supplied to China Mengniu Group during the two years ended 31 December 2024 and the nine months ended 30 September 2025 remained steady on average at about 650,000 tonnes per year.

4.3.2 The Proposed Annual Caps

Table 5 below sets out the Proposed Annual Caps in relation to the Supply of Raw Fresh Milk contemplated under the 2026 Raw Fresh Milk Supply Framework Agreement.

Table 5

	For the year ending 31 December		
	2026	2027	2028
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Proposed annual caps for Supply of Raw Fresh Milk	3,500	4,000	4,500

In short, the proposed annual caps are derived by estimating the overall raw fresh milk output based on the number of milkable cows of the Group, then multiplying 80% as the Group's commitment with the expected purchase price for raw fresh milk. In particular, we have considered and observed the following factors:

- (i) the historical transaction amounts of raw fresh milk sold by the Group to China Mengniu Group for the two years ended 31 December 2023, 2024 and the nine months ended 30 September 2025 respectively, as mentioned above.

We have reviewed the historical actual transaction amount and the utilisation rate of the historical annual caps as described in the section headed “4.3.1 Historical annual caps” above. We considered the historical amount to be a fair and reasonable reference for determining the proposed annual caps for the Supply of Raw Fresh Milk.

- (ii) the expected number of milkable cows of the Group and the expected overall sales volume of raw fresh milk by the Group for the three years ending 31 December 2026, 2027 and 2028;

As described in the section headed “1.2 Key historical data of the Group” above, we noted the number of milkable cows raised by the Group remained steady in FY2023, FY2024 and 1H2025 (on average about 64,000 heads). As disclosed in the 2024 Annual Report, the milk yield per milkable cow reached 12.05 tonnes (i.e. about 0.8 million tonnes in 2024), representing a year-on-year increase of 0.67 tonnes (approximately 6%). Accordingly, we believe such data is a fair and reasonable reference to derive the estimated overall raw fresh milk output to increase from 0.8 million tonnes at the rate of 6% per year, and in turn, will form the basis to derive the expected sales volume as discussed in (iii) below. In addition, by efficiently and effectively managing the use of feeds, the milk yield is expected to be further enhanced year-on-year.

- (iii) the expected sales volume of raw fresh milk to China Mengniu Group taking into account, among other things, the Group’s commitment to supply on average more than 80% of the raw fresh milk it produces in each year to China Mengniu Group; For illustration, by applying 88% of the raw fresh milk produced will supply China Mengniu Group (i.e. the proportion of revenue generated from the sales of raw fresh milk by the Group to China Mengniu Group in 1H2025), the expected sales volume will be about 0.7 million tonnes, 0.8 million tonnes and 0.8 million tonnes in 2026, 2027 and 2028 respectively; and
- (iv) the historical and prevailing purchase price for raw fresh milk paid by China Mengniu Group and the possible future fluctuation in price of dairy products in the PRC.

We have reviewed the historical and prevailing market prices of raw fresh milk of similar quality. In particular, we noted the market prices of raw fresh milk has since August 2025 begun to increase at an average rate of approximately 6%. Considering this upward shift and the historical price patterns, we believe it is fair and reasonable to project raw milk prices for the three years ending 31 December 2026, 2027 and 2028 using the average purchase prices for the years ended 31 December 2023 and 2024 and for the nine months ended 30 September 2025 of RMB4,460 per tonne as the base and applying an annual growth rate of 6% to reflect the recent upward trend. Accordingly, we are of the view that the Management using the historical data, the expected market prices and the expected sales volume (with an enhanced yield increase at 6% per year) to derive the expected sales of raw fresh milk for the three years ending 31 December 2026, 2027 and 2028 respectively as fair and reasonable.

Taking into account above, we are of the view that the proposed annual caps for Supply of Raw Fresh Milk are fair and reasonable.

RECOMMENDATIONS

Having considered the above principal factors, we are of the view that (i) the 2026 Dabeinong Products and Services Supply Framework Agreement, the 2026 Raw Fresh Milk Supply Framework Agreement and the Transactions are conducted in the Group's ordinary and usual course of business and are in the interests of the Company and the Shareholders as a whole; (ii) the terms of the 2026 Dabeinong Products and Services Supply Framework Agreement, the 2026 Raw Fresh Milk Supply Framework Agreement and the Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the proposed annual caps for the Transactions have been fairly and reasonably arrived at.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the Resolutions relating to the 2026 Dabeinong Products and Services Supply Framework Agreement, the 2026 Raw Fresh Milk Supply Framework Agreement, the Transactions and the proposed annual caps to be proposed at the EGM.

Yours faithfully,
For and on behalf of
Altus Capital Limited



Jeanny Leung
Responsible Officer

Ms. Jeanny Leung ("Ms. Leung") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.