

30 June 2026

To the Offer Shareholders,

Dear Sir or Madam,

**MANDATORY CONDITIONAL CASH OFFER BY
CLSA LIMITED FOR AND ON BEHALF OF
CHINA MODERN DAIRY HOLDINGS LTD. TO ACQUIRE
ALL THE ISSUED SHARES OF CHINA SHENGMU ORGANIC MILK
LIMITED
(OTHER THAN THOSE ALREADY OWNED OR AGREED
TO BE ACQUIRED BY CHINA MODERN DAIRY HOLDINGS LTD. AND
START GREAT)**

INTRODUCTION

Reference is made to the Rule 3.5 Announcement¹.

The Share Purchase Agreements

On 30 October 2025 (after trading hours), each Selling Shareholder and CMD entered into a Share Purchase Agreement, pursuant to which the relevant Selling Shareholder conditionally agreed to sell, and CMD conditionally agreed to purchase, the respective Sale Shares held by such Selling Shareholder. The aggregate number of Sale Shares is 107,200,000 CSM Shares (representing approximately 1.28% of the total issued share capital of CSM as at the Latest Practicable Date), and the total Consideration amounted to HK\$37,520,000 in cash.

The SPA Completion under each Share Purchase Agreement was subject to and conditional upon the following conditions being satisfied or (if capable of being waived) waived on or prior to the Long Stop Date:

- (a) the (i) obtaining of the antitrust clearance from the SAMR or (ii) expiry of any statutory waiting period in accordance with the anti-monopoly laws and regulations in the PRC with no objection having been raised by the SAMR, each in respect of the transactions contemplated under the Share Purchase Agreements and the Offer;
- (b) each of the representations and warranties provided by the Selling Shareholders under the Share Purchase Agreements remaining true and accurate in all respects;

¹ Accessible via: <https://www1.hkexnews.hk/listedco/listconews/sehk/2025/1030/2025103002415.pdf>

- (c) each of the representations and warranties provided by CMD under the Share Purchase Agreements remaining true and accurate in all respects;
- (d) the SFC (and if applicable, the Stock Exchange) having no further comment on the Rule 3.5 Announcement to be released in connection with the transactions contemplated under the Share Purchase Agreements and the Offer; and
- (e) compliance by CMD with all the applicable requirements to the transactions contemplated under the Share Purchase Agreements and the Offer as a major transaction and connected transaction in accordance with the Listing Rules, including but not limited to the obtaining of the requisite approvals by the CMD Independent Shareholders.

On 22 May 2026, all conditions under the Share Purchase Agreements were satisfied. As announced in the announcement of CMD dated 22 May 2026², the SPA Completion under each of the Share Purchase Agreements took place on 22 May 2026.

Grant of Irrevocable Voting Proxy by Start Great in favour of CMD

On 30 October 2025 (after trading hours), CMD, Start Great and Mengniu further entered into the Voting Rights Agreement, pursuant to which Start Great has irrevocably granted a proxy in favour of CMD to exercise the voting rights over 2,086,942,512 CSM Shares held by it (representing approximately 24.90% of the total issued share capital of CSM as at the Latest Practicable Date). As at the Latest Practicable Date, Start Great holds approximately 29.99% of the total issued share capital of CSM and the number of CSM Shares forming the subject of the Voting Rights Agreement has been determined following arm's length negotiations between the parties.

In addition, Start Great has irrevocably waived and committed not to exercise the voting rights with regards to all the remaining CSM Shares held by it (i.e. other than the Proxy Shares), save for matters, decisions or actions that would or would likely result in the winding up, liquidation, amalgamation, merger of CSM, the change of principal business of CSM, the repurchase or cancellation of any CSM Shares held by Start Great, or any matters that relate to or may affect the economic rights attached to any CSM Shares held by Start Great.

The Voting Rights Agreement has taken effect upon signing. However, pursuant to the terms of the Voting Rights Agreement, CMD agreed not to exercise the voting rights attached to the Proxy Shares without the prior written consent of Mengniu during the period between the date of the Voting Rights Agreement and the date of the Relevant Determination (or the date of termination of the Voting Rights Agreement in accordance with paragraphs (a) to (c) below).

The Voting Rights Agreement shall terminate upon the occurrence of any of the following events:

- (a) upon the termination or expiry of all Share Purchase Agreements by reason of the SPA Completion failing to take place on the SPA Completion Date;

² Accessible via: <https://www1.hkexnews.hk/listedco/listconews/sehk/2026/0522/2026052200341.pdf>

- (b) if CMD determines that insufficient CSM Shares are held by CMD to enable CMD to consolidate CSM as its subsidiary, in which case the Voting Rights Agreement shall be terminated immediately on the business day following such date CMD determines it is unable to consolidate CSM as its subsidiary. Such Relevant Determination may be made on the Closing Date and shall in any event be made within 3 months after the Closing Date, failing which paragraph (c) below shall apply; or
- (c) if the Relevant Determination is not made within 3 months after the Closing Date, the date falling 3 months after the Closing Date,

and in each case, the Irrevocable Voting Proxy under the Voting Rights Agreement shall lapse accordingly.

The Relevant Determination shall be made in accordance with the prevailing applicable accounting standards and is expected to be made by CMD no later than 3 months after the Closing Date.

Based on information currently available to CMD as at the Latest Practicable Date, and subject to the prevailing accounting standards as at the Closing Date, taking into account the Proxy Shares under the Voting Rights Agreement, the CMD Directors, having discussed with the auditor of CMD, are of the view that CMD will be able to consolidate CSM as its subsidiary if the condition of the Offer is satisfied by the Closing Date.

In addition, upon (i) the expiry of ten (10) years from the date of the Voting Rights Agreement or (ii) Mengniu ceasing to be the single largest CMD Shareholder, CMD shall have the right (but not the obligation) to acquire the Proxy Shares from Start Great on such terms and conditions as may be further agreed among CMD, Start Great and Mengniu. If CMD, Start Great and Mengniu fail to agree on such terms within ninety (90) days of the occurrence of (i) or (ii), or if the said acquisition does not complete within the period prescribed in the relevant transaction documents to be entered into in connection with the acquisition of the Proxy Shares, Start Great or Mengniu (as the case may be) may terminate the Voting Rights Agreement by written notice to CMD.

Further, upon closing of the Offer, if CMD determines that more voting rights in respect of the Proxy Shares have been proxied by Start Great in favour of CMD than is necessary to enable CMD to consolidate CSM as a subsidiary, the Irrevocable Voting Proxy in respect of such excess voting rights shall lapse accordingly. In addition, CMD has irrevocably undertaken to take such action to nominate at least one director designated by Mengniu to, and ensure at least one director designated by Mengniu to remain on, the board of directors of CSM at all times until the termination of the Voting Rights Agreement.

Further announcement(s) will be made in the event of termination or lapse of the Irrevocable Voting Proxy if and when appropriate in accordance with the requirements of the Takeovers Code and the Listing Rules.

Pursuant to the terms of the Voting Rights Agreement, Start Great has undertaken not to, and Mengniu has agreed to procure Start Great not to, sell, transfer, pledge, assign or otherwise dispose of any of the Proxy Shares held by Start Great without the prior written consent of CMD, except: (i) for tendering acceptance in a general offer or scheme of arrangement by any party in respect of the Proxy Shares; (ii) in the event that CMD proposes to dispose of any CSM Shares such that CMD will hold less than 15% in the total issued share capital of CSM after such disposal; and (iii) in the event that Start Great or Mengniu (as the case may be) receives an offer from any prospective purchaser(s) to acquire all or part of the Proxy Shares, CMD does not exercise its right of first refusal within 90 days after receipt of the notice from Start Great or Mengniu; and in each case, the Irrevocable Voting Proxy granted to CMD and attached to the Proxy Shares to be sold, transferred or disposed of shall terminate and cease to be valid.

The Offer

Reference is also made to the CMD Circular³ in respect of the Acquisition and the Offer setting out, amongst others, certain financial information of CMD and CSM and the CMD Group as enlarged by the CSM Group in accordance with the Listing Rules.

As at the date of the Rule 3.5 Announcement, CMD and parties acting in concert with it owned 2,513,178,555 CSM Shares, representing approximately 29.99% of the total issued share capital of CSM. Immediately following the SPA Completion under the Share Purchase Agreements, CMD and parties acting in concert with it held in aggregate approximately 31.26% (i.e., 30% or more) of the total issued share capital of CSM. Accordingly, pursuant to Rule 26.1 of the Takeovers Code, CMD is required to make a mandatory conditional cash offer for all the issued CSM Shares (other than those already owned and/or agreed to be acquired by CMD and Start Great).

This letter forms part of this Composite Document and sets out, among other things, principal terms of the Offer, together with certain information on CMD and CMD’s intention on the CSM Group. Further details on the terms and procedures for acceptances of the Offer are set out in Appendix I to this Composite Document and the accompanying Form of Acceptance.

Offer Shareholders are strongly advised to carefully consider the information contained in the appendices as contained in this Composite Document and to consult their professional advisers if in doubt before reaching a decision as to whether or not to accept the Offer.

MANDATORY CONDITIONAL CASH OFFER

The Offer

CLSA Limited, for and on behalf of CMD and in compliance with the Takeovers Code, is making a mandatory conditional cash offer to acquire all the Offer Shares on the following terms:

For each Offer Share HK\$0.35 in cash

³ Accessible via: <https://www1.hkexnews.hk/listedco/listconews/sehk/2025/1224/2025122400315.pdf>

The Offer is made to the Offer Shareholders. As CMD and Start Great hold in aggregate 2,620,378,555 CSM Shares immediately after the SPA Completion under all the Share Purchase Agreements, assuming there are no further changes in the issued share capital of CSM from the Latest Practicable Date up to and including the close of the Offer, 5,760,916,674 CSM Shares are subject to the Offer. Based on such number of Offer Shares and the Offer Price of HK\$0.35 per Offer Share, the maximum consideration payable by CMD under the Offer would be HK\$2,016,320,835.9.

The Offer Shares to be acquired under the Offer shall be fully paid and free from all Encumbrances and together with all rights and benefits attached thereto, including but not limited to the right to receive in full all dividends, distributions and any return of capital, if any, which may be made or declared or agreed to be made or declared, and the record date of which falls on or after the date on which the Offer is made, being the date of despatch of this Composite Document.

If, after the date of the Rule 3.5 Announcement, any dividend, distribution and/or return of capital is made or paid in respect of the Offer Shares, CMD reserves the right to reduce the Offer Price by an amount equal to the gross amount of such dividend or other distribution, in which case any references in the Rule 3.5 Announcement, the CMD Circular, this Composite Document and/or any other announcement or document to the Offer Price will be deemed to be a reference to the Offer Price as so reduced. Any such reduction will only apply to those Offer Shares in respect of which CMD will not be entitled to the relevant dividend, distribution and/or return of capital. As set out in the “Letter from the CSM Board”, as at the Latest Practicable Date, CSM does not have any dividend or distribution recommended, declared or made but unpaid and CSM does not intend to declare any dividend or make other distributions during the Offer Period. The Offer is subject to the satisfaction of the condition as set out in the section headed “Condition of the Offer” of this Composite Document.

Comparison of value

The Offer Price of HK\$0.35 per Offer Share represents:

- (i) a premium of approximately 14.75% over the closing price of HK\$0.305 per CSM Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 11.11% over the average closing price of HK\$0.315 per CSM Share as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to and including the Last Trading Day;
- (iii) a premium of approximately 8.19% over the average closing price of approximately HK\$0.324 per CSM Share as quoted on the Stock Exchange for the ten (10) consecutive trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 7.75% over the average closing price of approximately HK\$0.325 per CSM Share as quoted on the Stock Exchange for the thirty (30) consecutive trading days immediately prior to and including the Last Trading Day;

- (v) a discount of approximately 26.22% to the audited consolidated net asset value attributable to the owners of CSM per CSM Share of approximately HK\$0.47 as at 31 December 2025, calculated based on (i) the audited consolidated net assets attributable to the owners of CSM of approximately RMB3,591.08 million as at 31 December 2025; (ii) 8,381,295,229 CSM Shares in issue as at 31 December 2025; and (iii) the exchange rate of HK\$1.0: RMB0.90322, being the central parity rate as quoted by the People's Bank of China on 31 December 2025 for illustrative purposes only;
- (vi) a discount of approximately 31.68% to the unaudited consolidated net asset value attributable to the owners of CSM per CSM Share of approximately HK\$0.51 as at 30 June 2025, calculated based on (i) the unaudited consolidated net assets attributable to the owners of CSM of approximately RMB3,915.35 million as at 30 June 2025; (ii) 8,381,295,229 CSM Shares in issue as at 30 June 2025; and (iii) the exchange rate of HK\$1.0: RMB0.91195, being the central parity rate as quoted by the People's Bank of China on 30 June 2025 for illustrative purposes only;
- (vii) a discount of approximately 29.33% to the adjusted net asset value attributable to the owners of CSM per CSM Share of approximately HK\$0.50 as at 31 March 2026, calculated based on (i) the fair value of the identifiable tangible and intangible assets and liabilities belonging to CSM of approximately RMB3,665.07 million as at 31 March 2026 as set out in the Valuation Report; (ii) 8,381,295,229 CSM Shares in issue as at 31 March 2026; and (iii) the exchange rate of HK\$1.0: RMB0.88295, being the central parity rate as quoted by the People's Bank of China on 31 March 2026 for illustrative purposes only;
- (viii) a premium of approximately 6.06% over the closing price of HK\$0.330 per CSM Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Offer Price of HK\$0.35 per Offer Share was determined with reference to (i) the highest price per Sale Share paid by CMD under the Share Purchase Agreements which was arrived at after arm's length negotiations between CMD and each Selling Shareholder; (ii) the prospects of CSM; (iii) the trading liquidity and the historic closing prices of the CSM Shares on the Stock Exchange; and (iv) other similar transactions in Hong Kong in recent years.

The CSM Share Award Scheme and CSM Share Option Scheme

As at the Latest Practicable Date, there are certain CSM Share Awards awarded to the grantees under the CSM Share Award Scheme that remain unvested and which may be vested into existing CSM Shares or cash only, and the existing CSM Shares underlying such CSM Share Awards have already been issued and are currently held by the trustee of the CSM Share Award Scheme. Accordingly, no comparable offer will be made to the relevant grantees in respect of the CSM Share Awards granted under the CSM Share Award Scheme. For the avoidance of doubt, any CSM Shares held by the trustee of the CSM Share Award Scheme for the purposes of the CSM Share Award Scheme will form part of the Offer Shares.

In addition, no grants have been made under the CSM Share Option Scheme as at the Latest Practicable Date.

Condition of the Offer

The Offer is conditional only upon valid acceptances of the Offer being received (and not, where permitted, withdrawn) on or before 4:00 p.m. on the Closing Date (or such later time or date as CMD may, subject to the Takeovers Code, decide) in respect of such number of Offer Shares which, together with the CSM Shares already acquired or held by CMD and the parties acting in concert with it, would result in CMD and the parties acting in concert with it holding more than 50% of the voting rights of CSM as at the Closing Date. This condition cannot be waived.

If the condition cannot be satisfied by the Closing Date, the Offer will lapse. Further announcement(s) will be made as and when appropriate in relation to the revision, extension or lapse of the Offer, or the satisfaction of the condition to the Offer, in accordance with the requirements of the Takeovers Code and the Listing Rules.

Shareholders and potential investors of CMD and CSM should note that the Offer may or may not become or be declared unconditional. Shareholders and potential investors of CMD and CSM are reminded to exercise caution when dealing in the respective shares of CMD and CSM. Those who are in doubt as to the action should consult a licensed securities dealer or registered institutions in securities, bank manager, solicitor, professional accountant or other professional advisers.

Highest and lowest closing prices of the CSM Shares

During the Relevant Period, the highest closing price of the CSM Shares as quoted on the Stock Exchange was HK\$0.475 per CSM Share on 13 August 2025 and the lowest closing price of the CSM Shares as quoted on the Stock Exchange was HK\$0.175 per CSM Share on 30 April 2025.

Value of the Offer

As at the Latest Practicable Date, CSM had 8,381,295,229 CSM Shares in issue. On the basis of such number of CSM Shares in issue and the Offer Price of HK\$0.35 per Offer Share, the entire issued share capital of CSM would be valued at approximately HK\$2,933,453,330.2.

Confirmation of financial resources

The maximum amount of cash payable by CMD in respect of the consideration payable upon full acceptance of the Offer is approximately HK\$2,016,320,835.9, assuming there is no change in the issued share capital of CSM from the Latest Practicable Date up to and including the close of the Offer. CMD intends to finance the consideration payable under the Offer through internal resources of the CMD Group.

CITICS HK, as the exclusive financial adviser to CMD in respect of the Acquisition and the Offer, is satisfied that sufficient financial resources are available to CMD to satisfy the maximum consideration payable upon full acceptance of the Offer.

Effects of accepting the Offer

By accepting the Offer, the Offer Shareholders will be deemed to warrant that all Offer Shares to be sold by such person under the Offer are fully paid and free from all Encumbrances and together with all rights and benefits attaching thereto as at the date of the Composite Document or subsequently becoming attached to them, including but not limited to the right to receive in full all dividends, distributions and any return of capital, if any, which may be made or declared or agreed to be made or declared, and the record date of which falls on or after the date on which the Offer is made, being the date of despatch of this Composite Document.

Acceptance of the Offer will be irrevocable and not capable of being withdrawn, except in the circumstances as set out in the section headed “5. Right of withdrawal” in Appendix I to this Composite Document.

Hong Kong stamp duty

The seller’s Hong Kong ad valorem stamp duty arising in connection with acceptance of the Offer will be payable by the relevant Offer Shareholders who accept the Offer at a rate of 0.10% of (i) the consideration payable by CMD in respect of the relevant acceptance of the Offer; or (ii) the market value of the Offer Shares, whichever is higher (rounded up to the nearest HK\$1.00), and such stamp duty will be deducted from the cash amount payable by CMD to such Offer Shareholders on acceptance of the Offer.

CMD will arrange for payment of the seller’s Hong Kong ad valorem stamp duty on behalf of the relevant Offer Shareholders that accept the Offer and will pay the buyer’s Hong Kong ad valorem stamp duty in connection with the acceptance of the Offer and transfer of the Offer Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

Settlement of consideration

Subject to the Offer having become, or having been declared, unconditional in all respects, payment in cash in respect of acceptances of the Offer will be made as soon as possible but in any event no later than seven (7) Business Days after the later of: (i) the date on which the Offer becomes, or is declared unconditional; and (ii) the date of receipt of a duly completed acceptance of the Offer and the relevant documents of title of the Offer Shares in respect of such acceptance to render such acceptance of the Offer complete and valid pursuant to Rule 20.1 and Note 1 to Rule 30.2 of the Takeovers Code.

Relevant documents evidencing title must be received by the Receiving Agent to render such acceptance of the Offer complete and valid. The latest time by which CMD can declare the Offer unconditional as to acceptances is 7:00 p.m. on the sixtieth (60th) day after the date of the Composite Document, i.e. Saturday, 29 August 2026, which is not a Business Day and therefore extended to the next Business Day, being Monday, 31 August 2026 (or such later date to which the Executive may consent). If the Offer is withdrawn or lapses, pursuant to Rule 20.2 of the Takeovers Code, CMD is required to, as soon as possible but in any event no later than seven (7) Business Days after the Offer is withdrawn or lapses, post the share certificates of CSM Shares lodged with the Form of Acceptance to those Offer Shareholders who have accepted the Offer by ordinary post at his/her/its own risk.

No fractions of a Hong Kong cent will be payable and the amount of the consideration payable to an Offer Shareholder who accepts the Offer will be rounded up to the nearest Hong Kong cent.

Taxation advice

The Offer Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. None of CMD, CLSA Limited, CITICS HK, Somerley Capital Limited and their respective ultimate beneficial owners, directors, officers, advisers, agents or associates or any other person involved in the Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offer.

CSM Overseas Shareholders

The making of the Offer to Offer Shareholders who are not resident in Hong Kong may be affected by the applicable laws and regulations of the relevant jurisdiction in which they reside. Offer Shareholders who are citizens, residents or nationals of a jurisdiction outside Hong Kong should observe any applicable legal or regulatory requirements in their own jurisdictions and, where necessary, seek their own legal advice. It is the sole responsibility of the CSM Overseas Shareholders who wish to accept the Offer to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdictions in connection with the acceptance of the Offer (including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due by such accepting CSM Overseas Shareholders in respect of such jurisdictions).

Acceptance of the Offer by any CSM Shareholder will be deemed to constitute a representation and warranty from such CSM Shareholder to CMD that the local laws and requirements have been complied with and that the Offer can be accepted by such CSM Shareholder lawfully under the laws of the relevant jurisdiction. CSM Shareholders should consult their professional advisers if in doubt.

INFORMATION ON THE CSM GROUP

CSM is an exempted company incorporated in the Cayman Islands with limited liability and the CSM Shares are listed on the Stock Exchange (Stock Code: 1432). As at the Latest Practicable Date, the CSM Group is principally engaged in dairy cow farming, focusing on the production and sale of desert-based organic milk, other functional raw milk and high-quality raw milk.

The audited consolidated financial information of the CSM Group for each of the three years ended 31 December 2025, 31 December 2024 and 31 December 2023, as extracted from the annual report of CSM for the financial year ended 31 December 2025 and the annual report of CSM for the financial year ended 31 December 2024 are as follows:

	For the year ended 31 December		
	2025	2024	2023
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	(audited)	(audited)	(audited)
Revenue	3,012,260	3,126,184	3,383,629
Profit/(loss) before tax	(371,056)	(63,284)	97,686
Profit/(loss) for the year	(373,026)	(64,515)	94,612

The audited consolidated net asset value of the CSM Group as at 31 December 2024, as extracted from the annual report of CSM for the financial year ended 31 December 2024, was approximately RMB4,175,792,000. The audited consolidated net asset value of the CSM Group as at 31 December 2025, as extracted from the annual report of CSM for the financial year ended 31 December 2025, was approximately RMB3,805,101,000.

VALUATION REPORT AND REPORTS IN ACCORDANCE WITH THE TAKEOVERS CODE

The Valuer (being Jones Lang LaSalle Corporate Appraisal and Advisory Limited) has been appointed as the independent valuer to assess the fair value of the identifiable tangible and intangible assets and liabilities belonging to CSM for the sole purpose of purchase price allocation of the Acquisition and the Offer by CMD, which was referred to in the pro forma financial information of the enlarged CMD Group prepared for the information of the shareholders or potential investors of CMD in the CMD Circular only for the sole purpose of their voting decision at the CMD EGM. The full text of the Valuation Report prepared by the Valuer and the report issued by CITICS HK in connection with the qualification of the Valuer in accordance with Rule 11.1 of the Takeovers Code are set out in Appendices VII and VIII to this Composite Document respectively. The Valuation Report and such report in connection with the qualification of the Valuer, which would otherwise have been included in the CMD Circular, are included in this Composite Document to comply with the requirements under Rule 11.1 of the Takeovers Code. There is no material difference in the fair value of the identifiable tangible and intangible assets and liabilities assessed in the valuation report prepared with a reference date of 30 June 2025 used for the purpose of purchase price allocation of the Acquisition and the Offer in the CMD Circular and the Valuation Report prepared with a reference date of 31 March 2026 in compliance with Rule 11.4 of the Takeovers Code.

In addition, as the valuation of the milkable cows and right-of-use assets in relation to a grassland with an area of 122,000 mu in the Valuation Report (the “**Relevant Forecasts**”) was prepared using the income approach and based on discounted future cash flows, the Relevant Forecasts are regarded as a profit forecast under Rule 10 by virtue of Rule 11.1(a) of the Takeovers Code. Such discounted future cash flows have been reported on in accordance with the Takeovers Code and the full text of the requisite reports from CITICS HK and KPMG, the exclusive financial adviser to and the reporting accountants of CMD, has been set out in Appendices IX and X to this Composite Document. The reports from CITICS HK and KPMG have been lodged with the Executive.

INFORMATION ON THE CMD GROUP

CMD is an exempted company incorporated in the Cayman Islands with limited liability and its shares are listed on the Stock Exchange (Stock Code: 1117). The CMD Group is a leading operator in dairy cow farming and raw milk production in the PRC. Its two major business segments are the raw milk business and the integrated dairy farming solutions business, with a focus on supplying high-quality raw milk to dairy product manufacturers in the PRC.

REASONS FOR AND BENEFITS OF THE OFFER

Set out below are the reasons for and benefits of the Offer, assuming the Offer becomes unconditional:

For the CMD Group

Leveraging Economies of Scale to Reduce Procurement Costs: The combined herd size of the CMD Group and the CSM Group will exceed 600,000 heads as at 31 December 2025. This expanded scale will enable the CMD Group to leverage volume for better pricing in the procurement of bulk materials like feed, thereby achieving further economies of scale and reducing unit costs. The Acquisition and the Offer (assuming it becomes unconditional) will allow expansion of the CMD Group's business scale and asset base, further solidifying its leading position in the raw milk supply market and enhancing its overall risk resilience and market competitiveness.

Optimised Production Mix for Enhanced Competitiveness: The combined proportion of specialty milk (including organic) in total production by CMD Group and the CSM Group is expected to increase from the current 8% (for the CMD Group on a standalone basis) to over 20% on a combined basis. Integrating CSM Group's leading organic milk business will diversify and strengthen the CMD Group's raw milk supply base, increasing the proportion of its specialty milk. As organic milk commands a higher average selling price (ASP) than premium milk, this integration is expected to improve the overall quality and value of the CMD Group's assets, and in turn increase CMD Group's position in high-value raw milk segments.

Integrating a Sustainable Model for a Differentiated Advantage: The CSM Group, based in the Ulan Buh Desert, combines desert reclamation with organic dairy farming. Its sustainable ecological model – featuring “organic grass-based carbon sequestration, a zero-deforestation supply chain, smart water conservation, and restoration of degraded soil” – will provide the CMD Group with a proven model for green development and establish a unique, differentiated competitive advantage. The integration of the CSM Group's sustainable development practices, particularly its pioneering work in combining ecological governance with the organic industry, will strengthen the CMD Group's ESG profile, helping to attract a broader range of long-term investors.

For the Offer Shareholders

An attractive opportunity for the Offer Shareholders to realise their investment in the CSM Shares which have low liquidity: The average daily trading volumes of the CSM Shares for the 1-month period, 3-month period and 6-month period up to and including the Last Trading Day were approximately 8,586,579, 18,511,606, and 13,268,601 CSM Shares daily, representing only approximately 0.10%, 0.22% and 0.16% of the total number of the CSM Shares as at the Latest Practicable Date, respectively. The low trading liquidity of the CSM Shares may create difficulties for the Offer Shareholders to execute substantial on-market disposals without adversely affecting the price of the CSM Shares. As such, the Offer presents an immediate opportunity for Offer Shareholders to realise their investments for cash and redeploy the Offer Price into other investment opportunities.

The Offer Price represents a premium over the current market price: The Offer Price allows an exit for the Offer Shareholders at a premium to the current market price. The Offer Price represents a premium of approximately 14.75% over the closing price of the CSM Shares on the Last Trading Day of HK\$0.305 and approximately 8.19% and 7.75% over the average closing price of approximately HK\$0.324 and HK\$0.325 per Share for the 10 and 30 trading days up to and including the Last Trading Day, respectively.

For the CSM Group

Access to Advanced Operational Experience to Boost Production Efficiency: The CMD Group is an industry leader in key operational metrics, such as yield per milkable cow and feed cost control per kilogram of milk. While the CSM Group is a leader in domestic organic raw milk, there is potential to improve its current yield levels. Combined with the CMD Group's operational management expertise, it will help the CSM Group to enhance its farm management capabilities and production efficiency.

Shared Resource System for Cost Reduction and Efficiency Gains: By joining the CMD Group's system, the CSM Group will benefit from the CMD Group's large-scale procurement platform and sophisticated cost management system, which would in turn contribute to improvements in feed costs and other operating expenses. Synergies in technology, digital and intelligent management, breeding, and specialized feed formulation will jointly drive cost reduction and efficiency improvements, allowing both parties to consolidate and expand their advantages.

Complementary Strengths for Enhanced Growth Momentum: This integration is a strategic move built on complementary strengths. The combination of the CSM Group's organic credentials and ecological value with the CMD Group's scale and operational efficiency will enable both groups to maintain a strong competitive edge in both the premium and organic market segments, laying a solid foundation for both groups to jointly lead the industry's development.

INTENTION OF CMD REGARDING THE CSM GROUP

As at the Latest Practicable Date, CMD intends to continue with the CSM Group's existing businesses and does not intend to make any major changes to the business of CSM or to introduce any major changes in the continued employment of the employees of the CSM Group as a result of the Offer. However, in connection with the Acquisition and the Offer and subject to the Offer becoming unconditional, CMD expects to review the CSM Group and its assets, corporate structure, capitalisation, policies, management and personnel to consider and determine what changes, if any, would be appropriate or desirable following the Acquisition and the Offer in order to best organise and optimise the activities of the CSM Group, and may make any changes as it deems necessary or appropriate in light of its review of the CSM Group, including but not limited to any redeployment of fixed assets of the CSM Group or operations, corporate structure, capitalisation, management or employment arrangements.

As at the Latest Practicable Date, subject to the Offer becoming unconditional, CMD intends to nominate at least three new directors to the CSM Board, and additionally, to ensure that one director designated by Mengniu remains on the CSM Board at all times until the termination of the Voting Rights Agreement as set out in the sub-paragraph headed "INTRODUCTION – Grant of Irrevocable Voting Proxy by Start Great in favour of CMD" above, and may effect other changes to the existing composition of the CSM Board, in each case subject to the requirements of the Takeovers Code, the Listing Rules, the articles of association of CSM and the other applicable laws. As at the Latest Practicable Date, CMD has yet to determine the list of proposed nominees to the CSM Board. Further announcement(s) will be made in this connection as and when appropriate in accordance with the requirements under the applicable laws and regulations, including on the details of the proposed nominees of CMD.

PUBLIC FLOAT AND MAINTENANCE OF THE LISTING STATUS OF CSM

CMD intends to maintain the listing of the CSM Shares on the Stock Exchange after the closing of the Offer, and does not intend to avail itself of any powers of compulsory acquisition of any CSM Shares outstanding after the close of the Offer.

The Stock Exchange has stated that:

- (a) if, at the close of the Offer, the Stock Exchange believes that:
 - (i) a false market exists or may exist in the trading of the CSM Shares; or
 - (ii) an orderly market does not exist or may not exist,

it will consider exercising its discretion to suspend dealings in the CSM Shares; and

- (b) if, at the close of the Offer, CSM has a Significant Public Float Shortfall (as defined in Rule 13.32F of the Listing Rules), then:
- (i) the Stock Exchange will add a designated marker to the stock name of the listed shares; and
 - (ii) the Stock Exchange will cancel the listing of CSM Shares if CSM fails to re-comply with Rule 13.32B of the Listing Rules for a continuous period of 18 months from the commencement of the Significant Public Float Shortfall (as defined in Rule 13.32F of the Listing Rules).

CMD intends for CSM to remain listed on the Stock Exchange. The CMD Directors and any new directors to be appointed to the CSM Board will jointly and severally undertake to the Stock Exchange that if, at the close of the Offer, CSM fails to comply with the requirement of Rule 13.32B of the Listing Rules, they will take appropriate steps to ensure the issuer's compliance with Rule 13.32B of the Listing Rules at the earliest possible moment.

ACCEPTANCE AND SETTLEMENT

Your attention is drawn to the further details regarding further terms and conditions of the Offer, the procedures for acceptance and settlement and the acceptance period as set out in Appendix I to this Composite Document and the accompanying Form of Acceptance.

GENERAL

This Composite Document has been prepared for the purposes of complying with the laws of Hong Kong, the Takeovers Code and the Listing Rules and the information disclosed may not be the same as what would have been disclosed if this Composite Document had been prepared in accordance with the laws of jurisdictions outside Hong Kong.

To ensure equality of treatment of all Offer Shareholders, those Offer Shareholders who hold CSM Shares as nominee on behalf of more than one beneficial owner should, as far as practicable, treat the holding of such beneficial owner separately. It is essential for the beneficial owners of the CSM Shares whose investments are registered in the names of nominees to provide instructions to their nominees of their intentions with regard to the Offer.

All communications, notices, Form of Acceptance, share certificate(s), transfer receipt(s), other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to settle the consideration payable under the Offer to be delivered by or sent to or from the Offer Shareholders will be delivered by or sent to or from them, or their designated agents, by ordinary post at their own risk, and none of CMD, CLSA Limited, CITICS HK, CSM, CSM Independent Financial Adviser and any of their respective directors nor the Receiving Agent or other parties involved in the Offer or any of their respective agents accepts any liability for any loss in postage, delay in transmission or any other liabilities that may arise as a result thereof. Further details have been set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this Composite Document and the accompanying Form of Acceptance, which form part of this Composite Document. You are reminded to carefully read the “Letter from the CSM Board”, the “Letter from the CSM Independent Board Committee” and the “Letter from the CSM Independent Financial Adviser” and other information about the CSM Group, which are set out in this Composite Document before deciding whether or not to accept the Offer.

In considering what action to take in connection with the Offer, you should consider your own tax or financial position and if you are in any doubt, you should consult your professional advisers.

Yours faithfully,

For and on behalf of
CLSA LIMITED



Name: CHAN Wai Hung, Edmund

Title: Managing Director