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## **THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **CHINA MODERN DAIRY HOLDINGS LTD.**, you should at once hand this circular and the accompanying proxy form to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**现代牧业**

**China Modern Dairy Holdings Ltd.**

**中國現代牧業控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1117)**

### **CONTINUING CONNECTED TRANSACTION THE NEW FRAMEWORK SUPPLY AGREEMENT WITH QIUSHI**

**Independent Financial Adviser to the Independent Board Committee  
and Independent Shareholders**



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A letter from the Independent Board Committee containing its recommendations in respect of the New Framework Supply Agreement, the Transactions and the Caps to the Independent Shareholders is set out on pages 14 to 15 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 27 of this circular.

A notice convening the EGM of the Company to be held at Island Ballroom, Level 5, Island Shangri-la Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Friday, November 30, 2012 at 10:45 a.m. or immediately after the conclusion or adjournment of the Annual General Meeting which will be held at the same place on the same date is set out on pages 35 to 36 of this circular. If you are not able to attend the meeting, please complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong at Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

12 November 2012

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings, unless the context requires otherwise:*

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Buyer”	Modern Farm
“Buyer Group”	the Buyer and its subsidiaries
“Caps”	the maximum aggregate transaction amount of the New Framework Supply Agreement for each of the financial years ending June 30, 2013, 2014 and 2015
“China” or “PRC”	the People’s Republic of China (except Taiwan, Macau Special Administrative Region and the Hong Kong Special Administrative Region)
“Company”	China Modern Dairy Holdings Ltd., a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed to it in the Listing Rules
“continuing connected transaction”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held at Island Ballroom, Level 5, Island Shangri-la Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Friday, November 30, 2012 at 10:45 a.m. or immediately after the conclusion or adjournment of the Annual General Meeting which will be held at the same place on the same date for the purpose of considering and, if thought fit, approving the New Framework Supply Agreement, the Transactions and the Caps
“Estimated Purchase Volume”	the estimated purchase volume of the Forage Grass to be purchased by each of the relevant dairy farm of the Buyer Group from the Seller Group each month
“Forage Grass”	alfafa, oat grass, silage corn and wheat straw

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## DEFINITIONS

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“Force Majeure”	the events of force majeure under the New Framework Supply Agreement including, but not limited to, political rebellions, riots, earthquakes, typhoons, floods, fires, wars, cattle plague outbreaks or other unforeseeable objective situations of which occurrence or consequences cannot be prevented by the Parties
“Framework Supply Agreement”	the Framework Supply Agreement dated June 8, 2012 entered into between the Buyer and the Seller in relation to the sale and purchase of certain types of Forage Grass
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent board committee of the Company comprising three of the independent non-executive Directors, namely, Prof. Li Shengli, Prof. Guo Lianheng and Mr. Lee Kong Wai Conway, which is formed to advise the Independent Shareholders in relation to the New Framework Supply Agreement, the Transactions and the Caps
“Independent Financial Adviser” or “Cinda”	Cinda International Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the New Framework Supply Agreement
“Latest Practicable Date”	November 7, 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Independent Shareholder”	For the purpose of approving the resolution with respect to the New Framework Supply Agreement, the Transactions and the Caps, any shareholder of the Company that will not be required under the Listing Rules to abstain from voting at the EGM
“Independent Third Party(ies)”	company(ies) which is(are) not member of the Buyer Group
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Modern Farm”	現代牧業(集團)有限公司 (Modern Farming (Group) Co., Ltd.), a non-wholly owned subsidiary of the Company

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## DEFINITIONS

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“Mr. Qi”	Mr. Qi Xiaohang, the son of Ms. Gao Lina, an executive Director, Deputy Chairman and the Chief Executive Officer of the Company
“Ms. Deng”	Ms. Deng Yuan, the daughter of Mr. Deng Jiuqiang, an executive Director of the Company
“New Framework Supply Agreement”	the New Framework Supply Agreement dated October 10, 2012 entered into between the Buyer and the Seller in relation to the sale and purchase of Forage Grass
“Parties”	the Buyer and the Seller
“Qiushi”	秋實草業有限公司 (Qiushi Grass Industry Co. Ltd.), a limited liability company established in the PRC in September 2011 and is 18% owned by Modern Farm
“RFV index”	the relative feed value index, which has been widely used to determine the quality of a forage. It is based on the concept of potential digestible dry matter intake of a forage by an animal
“Seller”	Qiushi
“Seller Group”	Qiushi and its subsidiaries
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	registered holder(s) of the Share(s)
“Share(s)”	the ordinary share(s) in the issued share capital of the Company with a par value of HK\$0.10 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	any entity which falls within the definition of “subsidiary” under the Listing Rules or the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Supplying Pastures”	the pastures of the specified Seller Group under the New Framework Supply Agreement, which are located in Bengbu and Saibei
“Transactions”	the transactions between the Buyer Group and the Seller Group in respect of the supply of Forage Grass pursuant to the New Framework Supply Agreement

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LETTER FROM THE BOARD

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现代牧业

**China Modern Dairy Holdings Ltd.**

**中國現代牧業控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1117)**

*Executive Directors:*

Ms. Gao Lina (Deputy Chairman &  
Chief Executive Officer)  
Mr. Han Chunlin (Chief Operation Officer)  
Mr. Deng Jiuqiang

*Non-executive Directors:*

Mr. Wolhardt Julian Juul (Chairman)  
Mr. Hui Chi Kin, Max  
Mr. Lei Yongsheng

*Independent non-executive Directors:*

Prof. Li Shengli  
Prof. Guo Lianheng  
Mr. Lee Kong Wai, Conway

*Registered Office:*

Maples Corporate Service Limited  
PO Box 309  
Ugland House  
Grand Cayman, KY1-1104  
Cayman Islands

*Principal place of business in Hong Kong:*

Unit 2402, 24/F, Alliance Building  
130-136 Connaught Road Central  
Sheung Wan  
Hong Kong

12 November, 2012

*To the Shareholders*

Dear Sir and Madam,

**CONTINUING CONNECTED TRANSACTION  
THE NEW FRAMEWORK SUPPLY AGREEMENT WITH QIUSHI**

**1. INTRODUCTION**

Reference is made to the announcement of the Company dated October 10, 2012 with regards to the New Framework Supply Agreement, the Transactions and the Caps.

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## LETTER FROM THE BOARD

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The purposes of this circular are, among other things, to: (i) provide you with further details of the New Framework Supply Agreement, the Transactions and the Caps; (ii) set out the recommendation and opinion of the Independent Board Committee to the Independent Shareholders after taking into consideration of the advice of the Independent Financial Adviser in relation to the matters set out in (i); (iii) set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the matters set out in (i); and (iv) give you the notice of the EGM at which an ordinary resolution will be proposed to approve the matters set out in (i).

### 2. BACKGROUND

Modern Farm, a non-wholly owned subsidiary of the Company, entered into the Framework Supply Agreement with Qiushi in relation to the supply of certain types of the Forage Grass to the Buyer Group for the period from June 8, 2012 up to and including November 30, 2012. The Framework Supply Agreement provided a maximum aggregate purchase amount to be payable by the Group for the supply of Forage Grass which amounts to RMB50,000,000. Please refer to the announcement published by the Company on June 8, 2012 for more details of the Framework Supply Agreement.

Given the supply from Qiushi from June 2012 has been stable and proven to meet the requirements of the Group, the Company intends to purchase a larger amount of Forage Grass from Qiushi for a longer period of time. Modern Farm entered into the New Framework Supply Agreement with Qiushi on October 10, 2012 with the intention of replacing and substituting the Framework Supply Agreement. All of the New Framework Supply Agreement, the Transactions and the Caps are subject to approval by the Independent Shareholders of the Company at the EGM.

### 3. THE NEW FRAMEWORK SUPPLY AGREEMENT

The principal terms of the New Framework Supply Agreement are as follows:

<b>Date</b>	:	October 10, 2012
<b>Parties</b>	:	(i) Modern Farm as the Buyer; and (ii) Qiushi as the Seller.
<b>Duration</b>	:	For a term commencing from the date of the EGM subject to the approval of the Independent Shareholders at the EGM to June 30, 2015.
<b>Nature of Transaction</b>	:	Sales and supply of Forage Grass by the Seller Group to the Buyer Group.
<b>Caps</b>	:	The maximum aggregate purchase amount for each of the financial year ending June 30, 2013, 2014 and 2015 shall not exceed RMB357,800,000, RMB486,060,000 and RMB535,840,000.

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## LETTER FROM THE BOARD

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The above Caps were estimated based on (i) the actual purchase amount incurred by the Group between June 8, 2012 and September 30, 2012 of RMB49,500,000, (ii) the expansion plan of the Seller Group and the demand for Forage Grass of the dairy farms of the Buyer Group; (iii) the market price of Forage Grass of the corresponding quality level which meets the requirements of the Buyer; (iv) the lease of professional harvesting equipments by the Buyer Group to the Seller Group during the terms of the New Framework Supply Agreement in order to facilitate the Seller Group to supply Forage Grass of good quality to the Buyer Group; and (v) the forecast by the Parties as to price of Forage Grass for the term of the New Framework Supply Agreement.

Payments made by Modern Farm pursuant to the New Framework Supply Agreement are expected to be funded by internal cash resources of the Group or bank borrowing.

**Principal Terms of  
the Agreement**

: Other principal terms of the New Framework Supply Agreement are set out below:

- (i) The Buyer and the Seller shall confirm the Estimated Purchase Volume for each month of the financial years ending June 30, 2013, 2014 and 2015 before the end of October 2012, June 2013 and June 2014, respectively. The Estimated Purchase Volume is estimated based on the estimated production capacity of the Supplying Pastures and the estimated demand for Forage Grass of the dairy farms of the Buyer Group;
- (ii) In the event that the Supplying Pastures' actual production volume is below the estimated production capacity, the Seller Group shall use its best endeavors to provide each of the relevant dairy farms of the Buyer Group with the Estimated Purchase Volume; in the event that the Seller Group contemplates that they are not able to fulfill the Estimated Purchase Volume of any of the relevant dairy farms of the Buyer Group, the Seller shall notify the Buyer immediately. In the event that the Supplying Pastures' actual production volume is above the Estimated Purchase Volume, the Seller should inform the Buyer as soon as possible, and in such case the Buyer is entitled to increase the Estimated Purchase Volume;



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## LETTER FROM THE BOARD

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- (iii) The Buyer agrees to purchase the Estimated Purchase Volume of Forage Grass that meets the quality requirements of the Buyer and which is cultivated by the Supplying Pastures and delivered to the relevant farms of the Buyer Group. The Seller agrees to deliver and sell the Estimated Purchase Volume of Forage Grass, which meets the quality requirements of the Buyer, to the respective dairy farms of the Buyer Group;
- (iv) In the event that an Independent Third Party offers more favorable terms to the Seller Group, the Seller Group shall have the right to sell to that Independent Third Party such volume of Forage Grass not exceeding 30% of each of the Supplying Pastures' monthly production volume, provided that the Seller informs the Buyer in writing 15 days before the signing of the agreement with such Independent Third Party. In the event that the Seller Group enters into such arrangement, written or non-written, with an Independent Third Party, the Buyer Group shall thereafter owe no obligation to the Seller Group to purchase such percentage of its total production volume of Forage Grass which equals to the percentage of the total sales volume of Forage Grass agreed to be sold to such Independent Third Party;
- (v) For the Seller Group to sell Forage Grass to any Independent Third Party which operates any dairy farms located within 200 kms of dairy farms operated by the Buyer Group, the unit price of Forage Grass offered by such Independent Third Party shall not be lower than the sum of the base price and the adjusted price offered by the Buyer Group, without taking into account the discount of 10%;
- (vi) In the event that an Independent Third Party offers to purchase Forage Grass from the Seller Group at a price more than 10% higher than the sum of the base price and the adjusted price, the Seller Group is entitled to sell the Forage Grass to that Independent Third Party and the 30% volume restriction mentioned in paragraph (iv) above shall not apply. However, in the event that the Seller sells a volume of Forage Grass exceeding 30% of each of the Supplying Pastures' monthly production volume to an Independent Third Party, it shall notify the Buyer in

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## LETTER FROM THE BOARD

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writing three months prior to its entering into an agreement with that Independent Third Party. In the event that the Seller Group enters into such agreement, written or non-written, with an Independent Third Party, the Buyer Group shall thereafter owe no obligation to the Seller Group to purchase such percentage of its total production volume of Forage Grass which equals to the percentage of the total sales volume of Forage Grass agreed to be sold to such Independent Third Party;

- (vii) If the Forage Grass delivered to the dairy farms of the Buyer Group do not meet the minimum standards or appear moldy, the Buyer Group is entitled to reject the bundle or batch of the above Forage Grass;
- (viii) The Buyer and Seller will appoint independent accountants on a quarterly basis to review the quality and price of the Forage Grass provided by the Seller Group under the New Framework Supply Agreement and produce a review report for this purpose<sup>1</sup>;
- (ix) Apart from silage corn, the inventory days of Forage Grass purchased by the Buyer Group from the Seller Group in any field of the Buyer Group shall not exceed one month;
- (x) In any three consecutive months, if (i) the purchase amount of a particular type of Forage Grass supplied by the Seller Group exceeds 50% of the total purchase amount of the Buyer Group for that type of Forage Grass; or (ii) the aggregate purchase amount of Forage Grass supplied by the Seller Group exceeds 20% of the aggregate purchase amount of the Buyer Group for all feeds, no further transactions shall be conducted pursuant to the New Framework Supply Agreement within the relevant period of time unless approval is given by the Board.

*Note 1: In order to review the quality of Forage Grass, the independent accountants will send samples of Forage Grass to an independent laboratory for examination and will, based on the quality of the examined Forage Grass, review whether the prices charged are consistent with the terms of the New Framework Supply Agreement.*

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## LETTER FROM THE BOARD

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- Pricing** : (i) For alfafa and oat grass, the unit price = (base price + adjusted price) x 90%; and
- For silage corn and wheat straw, the unit price = (base price + adjusted price).
- (ii) The base price refers to the average quoted price received by the Buyer Group from third party suppliers (whether local or overseas) for Forage Grass that meets the minimum quality standard. Unless otherwise agreed by both parties, the base price is adjusted once every three months;
- (iii) The adjusted price is based on the upward adjustment to the unit price of Forage Grass according to the RFV index (calculated based on applicable industry standards), water content, dry matter, starch and ash content of Forage Grass. Upon delivery of the Forage Grass, the respective representatives of the Seller and the Buyer Group will take random samples of the Forage Grass for examination to determine the quality of the Forage Grass delivered. If the Seller does not agree with the examination report produced by the Buyer Group, samples shall be produced to independent institutions for examination;
- (iv) The sum of the base price and the adjusted price are set with reference to the average price paid by the Buyer Group to third party suppliers (whether local or overseas) for the same type of Forage Grass under the same quality standard and shall not be higher than the import price of the same type of Forage Grass under the same quality standard;
- (v) In the event that the harvesting equipments are leased by the Buyer Group to the Seller Group to reap the Forage Grass, the Buyer Group is entitled to an additional discount in respect of the Forage Grass concerned. Such discount shall be determined with reference to the discount set for similar arrangements between the Buyer Group and third party suppliers.

The Company estimates that, for the Forage Grass concerned only, the lease of harvesting equipments shall entitle the Company to an additional discount of approximately 10%.

- Payment terms** : The Buyer Group shall pay the Seller in the same way as it pays other suppliers of Forage Grass of the same quality. Currently the Buyer Group pays such other suppliers after 30 days from delivery.

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## LETTER FROM THE BOARD

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- Conditions for termination of the Agreement** : (i) the aim of the New Framework Supply Agreement cannot be achieved for reasons of Force Majeure;
- (ii) either party commits a material breach of the New Framework Supply Agreement and fails to take remedial measures within a reasonable period (such period shall not be less than 30 days), or despite remedial measures being taken, such breach has already caused material losses to the other party and such other party demands termination of the New Framework Supply Agreement;
- (iii) either party of the New Framework Supply Agreement is liquidated or is unable to perform the obligations under the New Framework Supply Agreement for reasons of material deterioration of operating conditions and such material deterioration has continued for more than 30 days; and
- (iv) the Buyer and the Seller agree in writing.
- Applicable laws** : The laws of China.

#### 4. REASONS FOR ENTERING INTO THE NEW FRAMEWORK SUPPLY AGREEMENT

The Company needs a large amount of high quality Forages Grass, which acts as a key source of nutrition for the dairy cows and directly affects the quality of milk and the yield of milk production. Pursuant to the Framework Supply Agreement, the Group has purchased Forage Grass from the Seller Group since June 8, 2012 and the supply was stable and proven to meet the requirements of the Group. By entering into the New Framework Supply Agreement, the Group will be able to secure high quality Forage Grass from Qiushi over the next three years. The Supplying Pastures of the Seller Group mainly produce alfafa and oat grass and the Company estimates that over 90% of the total purchase amount under New Framework Supply Agreement for each financial year during the term of the New Framework Supply Agreement will be used to purchase alfafa and oat grass, In addition, the price of the alfafa and oat grass, provided by Qiushi includes a discount of 10% on the sum of the base price and adjusted price, which makes it cheaper than the same type of alfafa and oat grass of corresponding quality provided by other suppliers. Moreover, Qiushi's pastures are located in close proximity to the dairy farms of the Group which renders it more convenient for the Group to monitor the planting, transportation and quality of the Forage Grass. The Directors therefore consider that, by procuring Forage Grass from Qiushi, the Group will be able to lower the costs of the Company.

The Directors, (including the independent non-executive Directors), are of the view that the terms of the New Framework Supply Agreement are on normal commercial terms, are fair and reasonable and in the interests of the Company and its Shareholders as a whole and the Transactions and the Caps are fair and reasonable.

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## LETTER FROM THE BOARD

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The Company confirms that the actual purchase amount incurred by the Group under the Framework Supply Agreement has not exceeded the maximum aggregate purchase cap as set out thereunder as at the Latest Practicable Date and does not expect the actual purchase amount will exceed the above maximum aggregate purchase cap before the date of the EGM.

### INFORMATION ON THE GROUP AND THE SELLER

#### (a) The Company

The Company is the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China according to the China Dairy Association.

#### (b) Modern Farm

Modern Farm is an indirect non-wholly owned subsidiary of the Company and is an investment holding company of its subsidiaries which are principally engaged in operating dairy farms and production and sale of raw milk in the PRC. As at the date of this announcement, the Company indirectly owns approximately 97.87% of the equity interests in Modern Farm.

#### (c) Qiushi

Qiushi was established in the PRC in September 2011 and is principally engaged in planting and sale of forage grass in the PRC. As at the date of this announcement, Modern Farm directly owns 18% of the equity interests in Qiushi. Each of Ms. Deng and Mr. Qi owns 63.33% and 13.33% of the equity interests in Qiushi, respectively. Mr. Wang Xiao and Mr. Yue Wei own 2.67% and 2.67% of the equity interest in Qiushi respectively. Both Mr. Wang Xiao and Mr. Yue Wei are third parties independent of the Company and its connected persons.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, other than disclosed in this announcement, the ultimate beneficial owners of Qiushi are third parties independent of the Company and its connected persons.

### 5. IMPLICATIONS UNDER THE LISTING RULES

Qiushi is a connected person of the Company under Rule 14A.11(4) of the Listing Rules as Ms. Deng, the child of Mr. Deng Jiuqiang, an executive Director of the Company, can exercise more than 50% of the voting power at general meetings of Qiushi. Given that one or more of the relevant percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules is expected to exceed 5% in relation to the Transactions and the annual consideration under the New Framework Supply Agreement will be over HK\$10 million, such transactions will constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules and are therefore subject to reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

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## LETTER FROM THE BOARD

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Apart from Mr. Deng Jiuqiang, Ms. Gao Lina also has a material interest in the Transactions since her son, Mr. Qi owns 13.33% of the equity interests in Qiushi. Therefore, each of Mr. Deng Jiuqiang and Ms. Gao Lina abstained from voting on the board resolution of the Company in approving the transaction. Save as disclosed, none of the Directors had a material interest in the New Framework Supply Agreement and none of them were therefore required to abstain from voting on the board resolutions of the Company in respect of the transaction.

### **6. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER**

The Independent Board Committee of the Company comprising the independent non-executive Directors, namely, Prof. Li Shengli, Prof. Guo Lianheng and Mr. Lee Kong Wai Conway has been established to advise the Independent Shareholders on the terms of the New Framework Supply Agreement and how to vote. Cinda International Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee of the Company and the Independent Shareholders in this regard.

Your attention is drawn to the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders set out on pages 14 to 15 of this circular and the letter from Cinda to the Independent Board Committee and the Independent Shareholders set out on pages 16 to 27 of this circular.

### **7. EGM**

Set out on pages 35 to 36 of this circular is the notice convening the EGM at which an ordinary resolution will be proposed to approve the New Framework Supply Agreement, the Transactions and the Caps. At the EGM, the votes of the Independent Shareholders in relation to the New Framework Supply Agreement, the Transactions and the Caps will be taken by poll.

Pursuant to rule 14A.59(5) of the Listing Rules, any connected person with a material interest in the transaction, and any Shareholders with a material interest in the transaction and its associate, will not vote on the relevant resolutions at the EGM. In view of the interests of Mr. Deng Jiuqiang, Ms. Deng and Ms. Gao Lina in the Transactions, Jinmu Holdings Co Ltd., which is held as to 49.12% by Ms. Gao Lina and Yinmu Holdings Co Ltd., which is held as to 21.4% by Ms. Deng, will abstain from voting in respect of the ordinary resolution to be proposed at the EGM to approve the New Framework Supply Agreement, the Transactions and the Caps.

A proxy form for use at the EGM is enclosed herein. If you are not able to attend the EGM, please complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong at Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

An announcement of the poll results of the EGM will be published by the Company in accordance with the requirements under the Listing Rules.

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## LETTER FROM THE BOARD

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### 8. RECOMMENDATION

Your attention is drawn to:

- (i) the letter from the Independent Board Committee set out on pages 14 to 15 of this circular which contains its recommendation to the Independent Shareholders; and
- (ii) the letter from the Independent Financial Adviser set out on pages 16 to 27 of this circular which contains its recommendation to the Independent Board Committee and the Independent Shareholders.

The Independent Board Committee, having considered the terms of the New Framework Supply Agreement, the Transactions and the Caps, and taken into account the advice of the Independent Financial Adviser, considers that the terms of the New Framework Supply Agreement are on normal commercial terms, and that the terms of the New Framework Supply Agreement, the Transactions and the Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM as set out in the notice of the EGM.

Taking into account the letter from the Independent Board Committee and all other factors stated above as a whole, the Directors are of the view that the terms of the New Framework Supply Agreement are on normal commercial terms, and that the terms of the New Framework Supply Agreement, the Transactions and the Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors also recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the New Framework Supply Agreement, the Transactions and the Caps.

### 9. FURTHER INFORMATION

Your attention is also drawn to the general information set out in the Appendix to this circular.

Yours faithfully,  
For and on behalf of the Board,  
**China Modern Dairy Holdings Ltd.**  
**WOLHARDT Julian Juul**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of a letter from the Independent Board Committee setting out its recommendation to Independent Shareholders in relation to the New Framework Supply Agreement.*



**China Modern Dairy Holdings Ltd.**

**中國現代牧業控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1117)**

12 November 2012

*To the Independent Shareholders*

Dear Sir and Madam,

### **CONTINUING CONNECTED TRANSACTION THE NEW FRAMEWORK SUPPLY AGREEMENT WITH QIUSHI**

We refer to the circular dated 12 November 2012 issued by the Company to the Shareholders (the “Circular”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders on whether the terms of the New Framework Supply Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Cinda has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. We wish to draw your attention to the letter of advice issued by Cinda which is set out on pages 16 to 27 of the Circular.



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered the terms of the New Framework Supply Agreement, and taken into account the advice of the Independent Financial Adviser, we are of the view that the terms of the New Framework Supply Agreement are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. We therefore recommend that the Independent Shareholders should vote in favour of the proposed ordinary resolution to approve the New Framework Supply Agreement, the Transactions and the Caps to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Prof. LI Shengli**

**Prof. GUO Lianheng**

**Mr. LEE Kong Wai Conway**

*Independent non-executive Directors*

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## LETTER FROM INDEPENDENT FINANCIAL ADVISER

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*The following is the text of a letter of advice, from Cinda, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



45th Floor, COSCO Tower  
183 Queen's Road Central  
Hong Kong

12 November 2012

*To: the Independent Board Committee and  
the Independent Shareholders*

Dear Sirs,

### CONTINUING CONNECTED TRANSACTION

#### 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 terms of the New Framework Supply Agreement (including the Caps for each of the three years ending 30 June 2015), particulars of which are set out in the "Letter from the Board" (the "**Letter**") contained in the circular dated 12 November 2012 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular, unless the context requires otherwise.

As stated in the Letter, the Buyer, an indirect non-wholly owned subsidiary of the Company, entered into the Framework Supply Agreement with Qiushi in relation to the supply of Forage Grass to the Group for the period from 8 June 2012 up to and including 30 November 2012 with a maximum aggregate purchase amount of RMB50,000,000. As the Company wants to secure high quality Forage Grass provided by Qiushi over the next three years, the Company entered into the New Framework Supply Agreement with Qiushi.

As at the Latest Practicable Date, the Buyer is indirectly owned as to approximately 97.87% equity interest by the Company. The Buyer Group is principally engaged in operating dairy farms and production and sale of raw milk in the PRC. Qiushi is principally engaged in planting and sale of Forage Grass in the PRC. As at the Latest Practicable Date, Qiushi is owned as to 63.33% by Ms. Deng, 18% by the Buyer, 13.33% by Mr. Qi and 5.34% by independent third parties not connected with the Company and its connected persons. As Ms. Deng is the daughter of Mr. Deng Jiuqiang, the executive Director, Qiushi is an associate of the Company's connected person (as defined in the Listing Rules). Accordingly, the Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Caps are more than 5% and the Caps exceed HK\$10 million, the New Framework Supply Agreement (including the Caps) and the Transactions is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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As at the Latest Practicable Date, Yinmu Holdings Co Ltd. (“**Yinmu**”), a company owned as to 21.4% by Ms. Deng, is the Company’s substantial shareholder holding 15.41% interest in the Company. Jinmu Holdings Co Ltd. (“**Jinmu**”), a company owned as to 49.12% by Ms. Gao Lina, an executive Director and the mother of Mr. Qi, is holding 4.54% interest in the Company. As Ms. Deng and Mr. Qi respectively hold 63.33% and 13.33% equity interest in Qiushi, Yinmu and Jinmu will abstain from voting on the resolutions to be proposed at the EGM to approve the Transactions and the Caps.

As Ms. Deng and Mr. Qi are respectively the daughter and the son of Mr. Deng Jiuqiang and Ms. Gao Lina, both are executive Directors, Mr. Deng Jiuqiang and Ms. Gao Lina has also abstained from voting on the relevant board resolutions of the Company in approving the New Framework Supply Agreement.

The Independent Board Committee comprising all the independent non-executive Directors, namely, Prof. Li Shengli, Prof. Guo Lianheng and Mr. Lee Kong Wai Conway, has been established to advise the Independent Shareholders whether the terms of the New Framework Supply Agreement (including the Caps) are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We, Cinda, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group and assumed that they are true, accurate and complete in all material aspects. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to believe that any material information has been withheld from us, nor to doubt the truth, accuracy or completeness of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendations as set out in this letter and to justify our reliance on such information. We have not, however, conducted any independent investigation into the business and affairs of the Group or its associates, nor have we carried out any independent verification of the information supplied.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the New Framework Supply Agreement (including the Caps for each of the three years ending 30 June 2015) are fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the following principal factors and reasons:

#### 1. Information on the Group and Modern Farm

The Group is principally engaged in the operation of dairy farm and production of raw milk in the PRC. It was set out in the Company's annual report for the year ended 30 June 2012 ("FY2012") that, according to the China Dairy Industry Statistics 2012, the Company is the largest dairy farming company in terms of herd size as well as the largest raw milk producer in the PRC. As at 30 June 2012, the Group had 20 farms in operation and 2 farms under construction in China with approximately 159,000 dairy cows in total. For FY2012, 96.4% of the sales of milk produced by the Group were sold to its primary customer, China Mengniu Dairy Company Limited, a listed company in Hong Kong, which is engaged in the manufacture of liquid milk, ice cream and other dairy products. Currently, the raw milk produced from certain farms of the Group are mainly used for the production and processing of Mengniu group's Milk Deluxe.

Modern Farm, the Buyer, was incorporated in the PRC and is indirectly owned as to 97.87% equity interest by the Company and the remaining equity interest owned by independent third parties not connected with the Company and its connected persons. The subsidiaries of Modern Farm are principally engaged in operating dairy farms and production and sale of raw milk in the PRC.

#### 2. Information on Qiushi

Qiushi was established in the PRC in September 2011 and is principally engaged in planting and sale of Forage Grass in the PRC. It was announced by the Company on 20 January 2012 (the "**January Announcement**") that on 7 December 2011, Modern Farm made a capital contribution of RMB13.5 million in Qiushi for 18% of the equity interest in Qiushi (the "**Investment**"), which constituted a connected transaction of the Company. Subsequent to Investment, Qiushi is owned as to 18% by Modern Farm, 63.33% by Ms. Deng and 13.33% by Mr. Qi. To the best of the Directors' knowledge and belief having made all reasonable enquiries, the other ultimate beneficial owners of Qiushi are independent third parties not connected with the Company and its connected persons.

As stated in the January Announcement, Qiushi's pastures are located in Anhui Province, which are in close proximity to the dairy farms of the Group in the same area. The relevant members of the Group might consider purchasing the Forage Grass from Qiushi in the future to save transportation costs and if they would choose to do so, the Directors considered that the Group would be in a better position to procure high quality Forage Grass from Qiushi in light of the Investment.

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### 3. Background to and reasons for the Transactions and the Caps

According to China Dairy Industry Statistics 2012, the Company is the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China. The Company needs a large amount of high quality of Forage Grass which is a key source of nutrition for the dairy cows and directly affects the quality of milk and the yield of milk production.

Set out below is the operating results of the Group for the financial years ended 30 June 2010 (“FY2010”), 30 June 2011 (“FY2011”) and FY2012 as extracted from the Company’s latest published annual reports:

	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>
	<i>RMB' 000</i>	<i>RMB' 000</i>	<i>RMB' 000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Sales of milk produced	589,775	1,113,354	1,677,615
Profit attributable to the owners of the Company	53,132	224,605	398,482

As shown above, the sales of milk produced of the Group increased from approximately RMB589.8 million in FY2010 to approximately RMB1,113.4 million in FY2011 and further increased to approximately RMB1,677.6 million in FY2012, representing an increase of 88.8% and 50.7% respectively. Net profit of the Group increased from approximately RMB53.1 million in FY2010 to approximately RMB224.6 million in FY2011 and further increased to approximately RMB398.5 million in FY2012, representing an increase of 323.0% and 77.4% respectively.

As advised by the Company, Qiushi’s pastures are located in close proximity to the Group’s dairy farms. In particular, the Qiushi’s pastures in planting alfafa and oat grass are approximately 10 km and 30 km from the Group’s dairy farms. This makes it more convenient for the Group to monitor the planting, transportation and quality of the Forage Grass supplied by Qiushi. In addition, since the Group has purchased Forage Grass from Qiushi from June 2012 pursuant to the Framework Supply Agreement, the supply of Forage Grass from Qiushi has been stable and has proven to have met the quality requirements of the Group. By entering into the New Framework Supply Agreement, the Group will be able to secure a stable and high quality Forage Grass from Qiushi in the next three years.

### 4. Principal terms of the New Framework Supply Agreement

**Date:** 10 October 2012

**Parties:** (i) Modern Farm; and  
(ii) Qiushi

**Duration:** For a term commencing from the date of the EGM subject to the approval of the Independent Shareholders at the EGM to 30 June 2015

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### *Nature of the Transactions:*

Under the New Framework Supply Agreement, Qiushi agreed to supply, and Modern Farm agreed to purchase, Forage Grass as follows:

The Forage Grass supplied by Qiushi consists of alfafa, oat grass, silage and wheat straw.

For alfafa and oat grass, the unit price will be:  $(Base\ price + adjusted\ price) \times 90\%$

For silage and wheat straw, the unit price will be:  $(Base\ price + adjusted\ price)$

where:

(a) *Base price*

The base price refers to the average quoted price received by the Group from third party suppliers (whether local or overseas) for Forage Grass that meets the minimum quality standard. Unless otherwise agreed by both parties, the base price is adjusted once every three months.

(b) *Adjusted price*

The adjusted price is based on the upward adjustment to the unit price of Forage Grass according to the RFV index, water content, dry matter, starch and ash content of Forage Grass.

It was also stated in the Announcement that the sum of the base price and the adjusted price shall be with reference to the average price paid by the Buyer to third party suppliers (whether local or overseas) for the same quality standard but not higher than the import price of the same type of Forage Grass of the same quality standard. The Buyer shall pay Qiushi in the same way as it pays other suppliers of Forage Grass of the same quality.

We were advised by the Company that the Buyer's monetary amount of purchases of alfafa and oat grass from Qiushi for the financial years ending 30 June 2013 ("FY2013"), 30 June 2014 ("FY2014") and 30 June 2015 ("FY2015") will together constitute approximately over 90% of the Buyer's total monetary amount of purchases of Forage Grass from Qiushi for the corresponding financial years respectively.

We are of the view that (i) the unit price of alfafa and oat grass (the monetary amount of purchases of which will constitute over 90% of the Buyer's total monetary amount of purchases of Forage Grass from Qiushi) to be paid by the Group to Qiushi to be equal to 90% of the sum of relevant base price and adjusted price which makes it cheaper than the same type of alfafa and oat grass of similar quality provided by other suppliers; and (ii) the unit price of silage and wheat straw (the monetary amount of purchases of which will constitute only a minor proportion of the Buyer's total monetary amount of purchases of Forage Grass from Qiushi) to be paid by the Group to Qiushi to be equal to sum of relevant base price and adjusted price, is favourable to the Group.

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It was also stated in the Announcement that in the event that an Independent Third Party offers more favorable terms to Qiushi, Qiushi shall have the right to sell to that party but such volume of Forage Grass will not exceed 30% of each of the Supplying Pastures' monthly production volume, provided that Qiushi will inform the Buyer in writing 15 days before the Qiushi signing of the agreement with such party. In the event that the Independent Third Party offers to purchase Forage Grass from Qiushi at a price more than 10% higher than the sum of the base price and the adjusted price, Qiushi's group is entitled to sell the Forage Grass to that party and the 30% volume restriction as mentioned above shall not apply. But in the event that Qiushi sells a volume of Forage Grass exceeding 30% of each of the Supplying Pastures' monthly production volume to the Independent Third Party, it shall notify the Buyer in writing three months before the Qiushi's signing of agreement with the party.

Having reviewed the New Framework Supply Agreement, we are of the view that it is a commercial consideration of Qiushi such that it can maximize its profit by selling some of its products to other parties if they could offer better terms than that offered by the Buyer. We were advised by the Company that in case Qiushi charges a higher price for the Forage Grass than those charged by other suppliers, the Buyer can obtain alternate supplies of Forage Grass of similar quality from other suppliers within a week's time. As Qiushi would give at least 15 days' prior notice to the Buyer in case it sells to other Independent Third Party a maximum of 30% the Supplying Pastures' monthly production volume and a three months prior notice in case it sells to other Independent Third Party more than 30% the Supplying Pastures' monthly production volume, the Company confirmed, and we concur, that the Buyer has sufficient time to source Forage Grass of similar quality with minimal impact on the business and operation of the Group.

### 5. Policy on avoidance of over-reliance on a single supplier

The Company advised us that they have an established internal policy in the Group's purchase of feed from its suppliers, which stated that the Group's purchase of Forage Grass from any of the single supplier (i) will not be more than 50% of the total purchase amount in any three consecutive months for that type of Forage Grass and (ii) will not be more than 20% of the total purchase amount of Forage Grass. We noted that such restriction was also stated in the New Framework Supply Agreement in purchasing Forage Grass from Qiushi. We are of the view that this term prevents over-reliance of the Group on the Forage Grass on a single supplier and lower the risk of the Group's operation being adversely affected in case any of the suppliers could not provide sufficient quantity of Forage Grass of the required quality and is beneficial to the Group.

### 6. Historical transactions

It was stated in the Company's announcement dated 8 June 2012 that the Buyer commenced purchases of Forage Grass from Qiushi in June 2012. The cap for the Buyer to purchase Forage Grass from Qiushi for the period from 8 June 2012 to 30 November 2012 was RMB50 million ("**Original Cap**"). However, it was stated in the Announcement that the Buyer's purchases of Forage Grass from Qiushi between 8 June 2012 to 30 September 2012 already amounted to RMB49.5 million. We were advised by the Company that, as the actual purchases was closed to the Original Cap, the Buyer has slowed down its purchases of Forage Grass from Qiushi in recent months so that the Original Cap is not exceeded.

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### 7. Assessment of the Caps

Set out below are the Buyer's historic purchases of the Forage Grass from Qiushi for the period from 8 June 2012 to 30 September 2012 and the Caps of the Forage Grass for FY2013, FY2014 and FY2015:

<b>From 8 June 2012 to 30 September 2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>
<b>Actual</b>	<b>Cap</b>	<b>Cap</b>	<b>Cap</b>
<i>(in RMB' 000)</i>	<i>(in RMB' 000)</i>	<i>(in RMB' 000)</i>	<i>(in RMB' 000)</i>
49,500	357,800	486,060	535,840

In assessing the reasonableness of the Caps, we have discussed with the Directors the basis and assumptions underlying the projections of the Caps. According to the Company, the Caps are determined based on the following factors:

- (a) *Actual purchase amount incurred by the Buyer between 8 June 2012 to 30 September 2012*

It was stated in the Announcement that the Company's actual purchases of Forage Grass from Qiushi from 8 June 2012 to 30 September 2012 amounted to RMB49.5 million. We were advised by the Company that, as the actual purchases was closed to the Original Cap, the Buyer has slowed down its purchase of Forage Grass from Qiushi in recent months so that the Original Cap is not exceeded.

- (b) *The expansion plan of Qiushi group and the demand for Forage Grass of the dairy farms of the Group*

According to the Company's annual report for FY2012, the Group had 20 farms in operation and 2 farms under construction in the PRC, with 159,347 dairy cows in total as at 30 June 2012. The total number of dairy cows of the Company has increased from 72,191 as at 30 June 2010 to 107,576 as at 30 June 2011 and further increased to 159,347 as at 30 June 2012.

According to the Company's annual report for FY2012, the total numbers of dairy cows of the Group as at FY2011 and FY2012 are as follow:

<b>Dairy cows</b>	<b>As at FY2012</b>	<b>As at FY2011</b>
	<b>Head</b>	<b>Head</b>
Milkable cows	70,793	46,267
Heifers and calves	<u>88,554</u>	<u>61,309</u>
Total dairy cows	<u>159,347</u>	<u>107,576</u>



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The Company's management intends to further promote their successful farm operation model and will construct more farms in the coming years. The total sales volume of milk produced increased by 49.5% from 431,394 tons for FY2012 from 288,620 tons for FY2011. The average milk yield achieved by the Group increased by 4.7% to 8.09 tons for FY2012 from 7.73 tons for FY2011. The milk yield per cow is affected by a number of factors, including a cow's stage of lactation, breed, generics and feed mix. It is the Group's intention to continue to work closely with local farmers and agriculture institutes to research and grow plants and crops that are suitable for the Group's dairy cows. We were advised by the Company that the land for planting Qiushi's alfalfa will increase from the present 50,000 mu to 100,000 mu by next year. The Group will also collaborate with local farmers in specific regions to establish a tailor-made feed supply chain, with the aim to reduce the cost of transporting feed and ensure the quality, nutritional content and stable supply of feed.

We were advised by the Company that the estimated quantity of Forage Grass to be purchased from Qiushi will be based on the estimated number of dairy cows of the Company in the three financial years ending 30 June 2015.

According to the Company's annual reports for FY2011 and FY2012, the number of dairy cows raised by the Group as at 30 June 2009, 2010, 2011 and 2012 were 43,959, 72,191, 107,596 and 159,347 respectively, representing an increase of approximately 64.2%, 49.0% and 48.1% for the three financial years ended 30 June 2012 respectively. The Company expects that the average total numbers of dairy cows for the three financial years ending 30 June 2015 would be slow down and would be increased by a CAGR of approximately 13%. We have discussed with the Company on the scale of dairy cows of the Company and were advised that as a result of the Company's importing heifers from overseas in the past years, the general quality of dairy cows were improved and it is the intention of the Company to gradually decrease the import of heifers from overseas in the future. Accordingly, as the base scale of dairy cows expands, the percentage increment of increase in the number of dairy cows will be smaller. Based on the slowdown in the increase in the number of dairy cows raised by the Company in recent years and the Company's expectation of the future growth in the number of dairy cows, we consider that the Company's expectation of the CAGR of approximately 13% for the three years ending 30 June 2015 is a reasonable assumption. As the number of dairy cows for FY2012 increased by 48.1% and the Company's expectation of a CAGR of approximately 13% for the three years ending 30 June 2015, we consider that the increase in the Caps from RMB357,800,000 for FY2013 to RMB486,060,000 for FY2014, representing an increase of 35.8%, and from RMB486,060,000 for FY2014 to RMB535,840,000 for FY2015, representing an increase of 10.2%, is reasonable. Based on the Company's assumption of the increase in average daily feed cost for each milkable cow and each heifer or calve as aforesaid, the Caps for FY2013, FY2014 and FY2015 for the Buyer to purchase Forage Grass from Qiushi amounting to approximately RMB357.8 million, RMB486.1 million and RMB535.8 million will amount to approximately 18% of the Group's estimated total purchases of feed in the respectively years, which is in line with the Group's policy of avoiding over-reliance on a single supplier as set out in (5) above, and is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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Feed cost constitutes a substantial proportion of the Group's total cost. As shown in the Company's annual report for FY2012, total feed costs amounted to approximately RMB1,013.9 million for the year ended 30 June 2012, which was attributable to 88.3% of the total farm operating expenses of approximately RMB1,148.7 million of the Group for the same period. For FY2012, total feed costs also increased by 56.4% as compared with that for FY2011.

In arriving at an expected total average annual feed cost for the Group's dairy cows for the three financial years ending 30 June 2015, the Company assumes that the average daily feed cost for a milkable cow for the three years ending 30 June 2015 will be increased by a compound annual growth rate ("CAGR") of approximately 2.5%, while the average daily feed cost for a heifer or calve will remain stable for the three financial years ending 30 June 2015.

According to the Company's prospectus dated 15 November 2010, the Company's feed includes concentrates and forages. Concentrates primarily consist of corn, soyabean meal, beer pulp and cotton meal and account for approximately 60% of the daily feed consumption of a milking cow (milkable cow in a lactation cycle). Forages mainly consists of corn silage, sheep grass and alfafa and account for about 40% of a milking cow's daily feed consumption. Unlike concentrates, forages are generally sources locally. The Forage Grass that the Buyer now intends to purchase from Qiushi is a kind of forage. The milk quality and yield produced by a dairy cow are largely determined by the nutritional composition of its feed.

Since supply of feed is very important to the Group's profit, the Company, through the Buyer, made a capital contribution of RMB13.5 million in Qiushi for 18% of the equity interest in Qiushi in December 2011 and entered into continuing connected transaction with Qiushi in June 2012 to purchase Forage Grass from Qiushi in order to secure the supplies of Forage Grass.

We consider that in order for the Company's dairy cows to produce quality milk, it is essential for the Company to obtain stable and reliable quality Forage Grass.

(c) *The market price of Forage Grass of the corresponding quality level which meets the requirements of the Group*

We have discussed with the management of the Company and were informed that the Forage Grass to be purchased from Qiushi mainly contains alfafa, silage and oats. We have checked the invoices in relation to the current price of alfafa, silage and oats paid by the Company to other independent suppliers and noted that the price per ton of alfafa, silage and oats paid by the Group to independent suppliers are comparable to the estimated purchase prices of the same products from Qiushi for the financial year ending 30 June 2013. In order to check the fairness of the calculation of the unit price for alfafa and oat grass as stipulated in the New Framework Supply Agreement, we have reviewed samples of invoice from other suppliers for alfafa and oat grass and then compared the purchase prices of different quality. By adopting the calculation of the unit price of alfafa and oat grass used in the New Framework Supply Agreement to various quality of alfafa and oat grass, we found that the adjustment set out in the calculation of the unit price for the alfafa and oat grass is reasonable.

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In addition, the Company and Qiushi will appoint independent accountants on a quarterly basis to review the equality and price of the Forage Grass provided by the Qiushi under the New Framework Supply Agreement and to produce a review report. If the Forage Grass delivered to the dairy farms of the Group does not meet the minimum standards or appear moldy, the Group is entitled to reject the bundle or batch of the Forage Grass. As stated in the Letter from the Board, in order to review the quality of Forage Grass, the independent accountants will send samples of Forage Grass to an independent laboratory for examination and will, based on the quality of the examined Forage Grass, review whether the prices charged to Qiushi are consistent with the terms of the New Framework Supply Agreement. We have reviewed the New Framework Supply Agreement and noted that it contains the price calculation according to the quality benchmark of Forage Grass, which can be used by the accountants to arrive at a price of the examined Forage Grass. We consider that this will safeguard the benefit of the Group and its interests of the Company and the Shareholders as a whole.

(d) *The forecast by the Parties as to price of Forage Grass for the term of the New Framework Supply Agreement*

According to the information released by National Bureau of Statistics of China, the inflation rate of the PRC from January to August 2012 ranged from 1.8% to 4.5%. We were advised by the Company that the prices of Forage Grass to be paid to Qiushi are estimated to increase with reference to the inflation rate of the PRC for the two years ending 30 June 2015. We are of the view that the expected price increase as estimated by the Company is fair and reasonable.

(e) *The provision of professional harvesting equipment by the Group to Qiushi*

It was stated in the New Framework Supply Agreement that the Group will lease harvesting equipments to the Qiushi to reap the Forage Grass during the period from 9 October 2012 to 30 June 2015. In the event that the harvesting equipments are leased by the Group to Qiushi to reap the Forage Grass, the Buyer is entitled to an additional discount in respect of the Forage Grass concerned. Such discount shall be determined with reference to the discount set for similar arrangements between the Company and third party suppliers. We were also advised by the Company that, according to the Company's internal policy, the leasing of harvesting equipment to various suppliers is centrally managed by the Group. As there will be different harvesting seasons for cow feeds, the Company will allocate harvesting equipment to the suppliers in accordance with the harvesting period of their products and charges a leasing fee based on the volume of Forage Grass processed by the harvesting equipment. We were advised by the Company that the leasing fee charged by the Company to Qiushi will be comparable to that charged to Independent Third Parties. We have obtained from the Company settlement invoices of the Company's other Forage Grass suppliers and found that the leasing fee charged by the Company to the suppliers is comparable to that to be offered to Qiushi.

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The Company needs a large amount of high quality Forage Grass, which acts as a key source of nutrition for the dairy cows and directly affects the quality of milk and the yield of milk production. As advised by the Company, the provision of professional harvesting equipment by the Group to Qiushi is to ensure a good quality supply of Forage Grass to the Group. As the Company's provision of harvesting equipment to Qiushi will ensure a good quality supply of Forage Grass and the price paid by the Group to Qiushi for the supply of Forage Grass will be discounted by the leasing fee which is comparable to the price charged to Independent Third Parties, we consider that this is in the interest in the Company and is fair and reasonable.

Shareholders should note that the Caps should not be construed as an assurance or forecast made by the Group of its future revenues.

### 8. Reporting requirements and conditions of the Transactions

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the Transactions are subject to the following annual review requirements:

- (a) Each year the independent non-executive Directors must review the Transactions and confirm in the annual report and accounts that the Transactions have been entered into:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties not connected with the Company and its connected persons; and
  - (iii) in accordance with the New Framework Supply Agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- (b) Each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report), confirming that the Transactions:
  - (i) have received the approval of the Board;
  - (ii) are in accordance with the pricing policies of the Group;
  - (iii) have been entered into in accordance with the New Framework Supply Agreement governing the Transactions; and
  - (iv) have not exceeded the Caps;
- (c) The Company shall allow, and shall procure that the counterparty to the Transactions to allow, the Company's auditors sufficient access to their records for the purpose of reporting on the Transactions as set out in paragraph (b) above; and

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- (d) The Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the Independent Board Committee and/or the auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and/or (b) above respectively.

In light of the reporting requirements attached to the Transactions, in particular, (a) the restriction of the values of the Transactions by way of the Caps; and (b) the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Transactions and the Caps, we are of the view that appropriate measures is in place to govern the conduct of the Transactions and assist in safeguarding the interests of the Independent Shareholders.

### RECOMMENDATION

We have considered the following factors:

1. The unit price of alfafa and oat grass, the purchases of which together constitute over 90% of the Group's total purchases of Forage Grass from Qiushi for the three years ending 30 June 2015, will be equal to 90% of the sum of relevant base price and adjusted price, which makes it cheaper than the same type of alfafa and oat grass of similar quality provided by other suppliers;
2. Qiushi has been supplying Forage Grass to the Group since June 2012 with proven quality;
3. the Group could secure stable and high quality of Forage Grass provided by Qiushi over the next three years;
4. Qiushi's pastures are located in close proximity to the Group's dairy farms which make it more convenient for the Group to monitor the planting, transportation and quality of the Forage Grass; and
5. the Company and Qiushi will appoint independent accountants on a quarterly basis to review the equality and price of the Forage Grass provided by the Qiushi under the New Framework Supply Agreement and to produce a review report.

Having taken into account the above principal factors and reasons, we consider that the Transactions would be conducted on normal commercial terms, in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole. We also consider the terms of the Transactions and the Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the relevant resolutions at the EGM to approve the Transactions and the Caps.

Yours faithfully,  
For and on behalf of  
**Cinda International Capital Limited**  
**Adrian Tsang**  
*Managing Director and*  
*Head of Investment Banking Division*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions of the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), to be notified to the Company and the Stock Exchange.

Name of Director	Nature of interest	Number of Shares or underlying Shares	Approximate percentage of shareholding interest
Ms Gao Lina <sup>1</sup>	Interest in controlled corporation	218,153,733	4.54%
	Beneficial owner	29,276,916 <sup>2</sup>	0.61%
Mr. Han Chunlin	Beneficial owner	29,276,916 <sup>2</sup>	0.61%

<sup>1</sup> Ms. Gao holds approximately 49.12% of the interests in Jinmu Holdings Co Ltd. ("Jinmu"). Ms Gao is deemed to be interested in the 218,157,733 shares held by Jinmu under the SFO.

<sup>2</sup> These represent interest in underlying shares of the management options granted by the Company, details of which are set out in the section "Management Options" below.

## MANAGEMENT OPTIONS

The Company issued the management options on October 31, 2010 to Ms. Gao Lina, Mr. Han Chunlin and Mr. Sun Yugang. The following share options were outstanding as at the Latest Practicable Date:

<b>Name of grantee</b>	<b>Date of grant</b>	<b>Number of underlying Shares</b>	<b>Exercise price HK\$</b>
Ms. Gao Lina	October 31, 2010	29,276,916	0.86
Mr. Han Chunlin	October 31, 2010	29,276,916	0.86
Mr. Sun Yugang	October 31, 2010	28,858,675	0.86

These options are exercisable during the period commencing from the listing date, November 26, 2010 until 10 years from the date of offer. No share option was granted, cancelled, lapsed or exercised as at the Latest Practicable Date.

As at the Latest Practicable Date, the number of Shares to be issued upon the exercise of the outstanding options is 87,412,507 Shares, representing 1.82% of the issued share capital of the Company as at the Latest Practicable Date.

## SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other shareholders interested in 5% or more of the interests and short positions in the Shares and underlying Shares of the Company or any person (other than a Director or chief executive of the Company) which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as otherwise recorded in the register required to be kept by the Company under section 336 of the SFO:

<b>Name</b>	<b>Capacity/ Nature of interest</b>	<b>Number of Shares</b>	<b>Approximate percentage of shareholding interest</b>
Yinmu Holdings Co Ltd.	Beneficial interest	739,559,117	15.41%
Xinmu Holdings Co Ltd.	Beneficial interest	711,021,025	14.81%
Advanced Dairy Company Limited	Beneficial interest	1,152,248,682	24.01%

<b>Name</b>	<b>Capacity/ Nature of interest</b>	<b>Number of Shares</b>	<b>Approximate percentage of shareholding interest</b>
KKR Asian Fund L.P. <sup>3</sup>	Interest in controlled corporation	1,152,248,682	24.01%
KKR Associates Asia L.P.	Interest in controlled corporation	1,152,248,682	24.01%
KKR SP Limited	Interest in controlled corporation	1,152,248,682	24.01%
KKR Asia Limited	Interest in controlled corporation	1,152,248,682	24.01%
KKR Fund Holdings L.P.	Interest in controlled corporation	1,152,248,682	24.01%
KKR Fund Holdings GP Limited	Interest in controlled corporation	1,152,248,682	24.01%
KKR Group Holdings L.P.	Interest in controlled corporation	1,152,248,682	24.01%
KKR Group Limited	Interest in controlled corporation	1,152,248,682	24.01%
KKR & Co. L.P.	Interest in controlled corporation	1,152,248,682	24.01%
KKR Management LLC	Interest in controlled corporation	1,152,248,682	24.01%
Mr. Henry R. Kravis and Mr. George R. Roberts	Interest in controlled corporation	1,152,248,682	24.01%

<sup>3</sup> Each of KKR Asian Fund L.P. (as the controlling shareholder of Advanced Dairy Company Limited); KKR Associates Asia L.P. (as the general partner of KKR Asian Fund L.P.); KKR SP Limited (as the voting partner of KKR Associates Asia L.P.); KKR Asia Limited (as the general partner of KKR Associates Asia L.P.); KKR Fund Holdings L.P. (as the sole member of KKR Asia Limited); KKR Fund Holdings GP Limited (as a general partner of KKR Fund Holdings L.P.); KKR Group Holdings L.P. (as a general partner of KKR Fund Holdings L.P. and the sole shareholder of KKR Fund Holdings GP Limited); KKR Group Limited (as the general partner of KKR Group Holdings L.P.); KKR & Co. L.P. (as the sole shareholder of KKR Group Limited); KKR Management LLC (as the general partner of KKR & Co. L.P.); and Mr. Henry R. Kravis and Mr. George R. Roberts (as designated members of KKR Management LLC) be deemed to be interested in the Shares. Mr. Henry R. Kravis and Mr. George R. Roberts disclaim beneficial ownership of the Shares.



Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding interest
Crystal Dairy Holdings (CDH) Limited	Beneficial interest	384,104,918	8%
CDH Guard Limited <sup>4</sup>	Interest in controlled corporation	384,104,918	8%
CDH China Fund III, L.P.	Interest in controlled corporation	384,104,918	8%
CDH III Holdings Company Limited	Interest in controlled corporation	384,104,918	8%
China Diamond Holdings III, L.P.	Interest in controlled corporation	384,104,918	8%
China Diamond Holdings Company Limited	Interest in controlled corporation	384,104,918	8%

Mr. Wolhardt Julian Juul, a non-executive Director and the Chairman of the Company, is also a director of Advanced Dairy Company Limited. Save as disclosed above, none of the Directors was a director or employee of a company which had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as at the Latest Practicable Date.

#### DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group, other than service contracts expiring or terminable by the relevant member of the Group within one year without payment of compensation other than statutory compensation.

<sup>4</sup> CDH Guard Limited (as the sole shareholder of Crystal Dairy Holdings (CDH) Limited); CDH China Fund III L.P. (as the sole shareholder of CDH Guard Limited), CDH III Holdings Company Limited (as the general partner of CDH China Fund III L.P.); China Diamond Holdings III, L.P. (as the holding company of CDH III Holdings Company Limited); and China Diamond Holdings Company Limited (as the general partner of China Diamond Holdings III, L.P.) is deemed to be interested in the Shares.

**DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS**

As at the Latest Practicable Date, save for the contracts or arrangements disclosed below, there was no contract or arrangement subsisting at the Latest Practicable Date in which any of the Directors was materially interested and which was significant in relation to the business of the Group:

- (i) the capital contribution of RMB13.5 million made by Modern Farm to Qiushi for 18% of the equity interests in Qiushi on December 7, 2011, details of which were disclosed in the announcement of the Company dated January 20, 2012;
- (ii) the Framework Supply Agreement, details of which were disclosed in the announcement of the Company dated June 8, 2012; and
- (iii) the New Framework Supply Agreement, details of which were disclosed in the announcement of the Company dated October 10, 2012 and the Letter from the Board as set out in this circular.

**DIRECTORS' INTERESTS IN ASSETS**

None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or proposed to be so acquired, disposed of or leased since June 30, 2012, being the date to which the latest published audited accounts of the Company were made up, and up to the Latest Practicable Date.

**DIRECTORS' INTERESTS IN COMPETING BUSINESS**

At the Latest Practicable Date, none of the Directors or their respective associates had interests in the businesses, which compete or are likely to compete, either directly or indirectly, with the businesses of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a controlling Shareholder (as defined in the Listing Rules)).

**3. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since June 30, 2012, being the date to which the latest published audited financial statements of the Group were made up.

#### 4. EXPERT AND CONSENT

The following are the qualifications of the expert who has given opinion or advice which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Cinda	a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO

Cinda has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, Cinda did not have any direct or indirect interest in any assets which had since June 30, 2012 (being the date which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, Cinda was not beneficially interested in the share capital of any member of the Group, nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

#### 5. GENERAL

In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

#### 6. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on Monday to Friday (other than public holidays) at the head office and principal place of business of the Company in Hong Kong at Unit 2402, 24/F, Alliance Building, 130-136 Connaught Road Central, Sheung Wan, Hong Kong from the date of this circular up to and including the date of the EGM:

- a) the Framework Supply Agreement;
- b) the New Framework Supply Agreement;
- c) a memorandum setting out details of the capital contribution of RMB13.5 million made by Modern Farm to Qiushi for 18% of the equity interests in Qiushi on December 7, 2011;

- d) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 14 to 15 of this circular;
- e) the letter from Cinda to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 16 to 27 of this circular; and
- f) the written consent referred to in the section headed “Expert and Consent” in this appendix.

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## NOTICE OF EGM

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现代牧业

### **China Modern Dairy Holdings Ltd.**

中國現代牧業控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 1117)

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “Meeting”) of the shareholders of China Modern Dairy Holdings Ltd. (the “Company”) will be held at Island Ballroom, Level 5, Island Shangri-la Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Friday, November 30, 2012 at 10:45 a.m. or immediately after the conclusion or adjournment of the Annual General Meeting which will be held at the same place on the same date, for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as an ordinary resolution of the Company:

#### ORDINARY RESOLUTION

**“THAT:**

- (a) the new framework supply agreement (the “New Framework Supply Agreement”) dated October 10, 2012 entered into between Modern Farming (Group) Co., Ltd. as buyer and Qiushi Grass Industry Co. Ltd. as seller (a copy of which is tabled at the meeting and marked “A” and initialled by the chairman of the meeting for identification purpose) in relation to the supply of Forage Grass and (a) the transactions contemplated thereunder (the “Transactions”); and (b) the proposed annual caps for the three years ending June 30, 2013, 2014 and 2015 being RMB357,800,000, RMB486,060,000 and RMB535,840,000 respectively (the “Caps”) be and are hereby approved, ratified and confirmed; and
- (b) the board of directors of the Company be and is hereby authorized to take all such actions as it considers necessary or desirable to implement and give effect to the New Framework Supply Agreement, the Transactions and the Caps.”

By order of the board of  
**China Modern Dairy Holdings Ltd.**  
**WOLHARDT Julian Juul**  
*Chairman*

Hong Kong, November 12, 2012

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## NOTICE OF EGM

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**Notes:**

1. Any member of the Company entitled to attend and vote at the meeting by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.
2. In order to be valid, a proxy form and the power of attorney or other authority (if any) under which it is signed, or a notarial certified copy of such power of attorney or authority, must be deposited at the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof.

Completion and return of the proxy form will not preclude any member from attending and voting in person at the meeting or any adjourned meeting should he so wish.

3. In case of joint shareholding, the vote of the senior joint shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint shareholder(s) and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint shareholding.
4. Shareholders whose names appear on the register of members of the Company on Friday, 30 November 2012 are entitled to attend and vote at the meeting. The register of members of the Company will be closed from Tuesday, 27 November 2012 to Friday, 30 November 2012, both days inclusive, and during such period no share transfer will be registered. In order to qualify for voting at the meeting convened by the above notice, properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, 26 November 2012, for registration.
5. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.