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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)

CONNECTED TRANSACTION

SUBSCRIPTION FOR EQUITY INTERESTS IN QIUSHI

The Directors announces that on December 17, 2012, the Parties entered into the Subscription Agreement, pursuant to which the Parties agreed to make a capital contribution in an aggregate amount of RMB43 million in Qiushi, among which Modern Farm, a non-wholly owned subsidiary of the Company, agreed to make a capital contribution of RMB7.74 million. Together with the capital contribution of RMB13.5 million that Modern Farm made in Qiushi on December 7, 2011, the total capital contribution that Modern Farm made in Qiushi will become RMB21.24 million, which amounts to 18% of the total registered capital of Qiushi upon Completion.

Reference is made to the announcement of the Company dated January 20, 2012 in respect of a capital contribution of RMB13.5 million that Modern Farm had made in Qiushi on December 7, 2011.

BUSINESS OF QIUSHI AND REASONS FOR THE INVESTMENT

Qiushi was established in the PRC in September 2011 and is principally engaged in planting and sale of Forage Grass. Qiushi is currently growing its pastures and selling Forage Grass. Qiushi's pastures are located in Anhui Province, which are in close proximity to the dairy farms of the Group in the same area.

Qiushi is one of the Forage Grass suppliers of the Group. References are made to the announcement and the circular of the Company dated October 10, 2012 and November 12, 2012, respectively, in respect of the New Framework Supply Agreement, pursuant to which Qiushi and its subsidiaries agreed to supply Forage Grass to Modern Farm and its subsidiaries for a term commencing from November 30, 2012 to June 30, 2015 and the maximum aggregate purchase amount for each of the financial year ending 30 June 2013, 2014 and 2015 shall not exceed RMB357,800,000, RMB486,060,000 and RMB535,840,000. The New Framework Supply Agreement was approved by the shareholders at the EGM on November 30, 2012.

After its commencement of operation in January 2012, Qiushi requires further financing to improve its financial position. The Directors consider it is in the interest of the Company to make the Investment to maintain its percentage of equity interests in Qiushi and expects the Company will benefit in the long term by investing in Qiushi.

LISTING RULES IMPLICATIONS

Qiushi is a connected person of the Company under Rule 14A.11(4)(b)(ii) 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. As the applicable percentage ratios (as defined in Chapter 14 of the Listing Rules) of the Investment are more than 0.1% but less than 5%, the entering into the Subscription Agreement by Modern Farm, being on normal commercial terms, is exempt from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules.

The Directors announces that on December 17, 2012, the Parties entered into the Subscription Agreement, pursuant to which the Parties agreed to make a capital contribution in an aggregate amount of RMB43 million in Qiushi, among which Modern Farm, a non-wholly owned subsidiary of the Company, agreed to make a capital contribution of RMB7.74 million. Together with the capital contribution of RMB13.5 million that Modern Farm made in Qiushi on December 7, 2011, the total capital contribution that Modern Farm made in Qiushi will become RMB21.24 million, which amounts to 18% of the total registered capital of Qiushi upon Completion.

Reference is made to the announcement of the Company dated January 20, 2012 in respect of a capital contribution of RMB13.5 million that Modern Farm had made in Qiushi on December 7, 2011.

Nature of Qiushi and the Investment

Qiushi was incorporated in the PRC as a limited liability company on September 30, 2011. At the date of this announcement, the registered capital of Qiushi is RMB118 million and its equity interests, before and after the Investment, are owned by the following parties:

	Before the Investment		After the Investment	
	Registered Capital	% of Equity Interests	Registered Capital	% of Equity Interests
	<i>(RMB' million)</i>		<i>(RMB' million)</i>	
鄧源 (Deng Yuan) ("Ms. Deng") ⁽¹⁾	46.5	62.00%	73.16	62.00%
齊小航 (Qi Xiaohang) ("Mr. Qi") ⁽²⁾	10.0	13.33%	15.73	13.33%
Modern Farm	13.5	18%	21.24	18%
Other members of Qiushi	<u>5.0</u>	<u>6.67%</u>	<u>7.87</u>	<u>6.67%</u>
Total	<u>75.0</u>	<u>100%</u>	<u>118</u>	<u>100%</u>

Notes:

- (1) Ms. Deng is the daughter of Mr. Deng Jiuqiang, an executive Director of the Company.
- (2) Mr. Qi is the son of Ms. Gao Lina, an executive Director, the Chief Executive Officer and Deputy Chairman of the Company.
- (3) Both Mr. Deng Jiuqiang and Ms. Gao Lina abstained from voting on the board resolutions of Modern Farm to approve the Investment due to their interests as referred to in Notes (1) and (2) above.
- (4) Other members of Qiushi include 岳微 (Yue Wei), 王曉 (Wang Xiao), 郝培根 (Hao Peigen) and 徐智明 (Xu Zhiming). To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, they are third parties independent of the Company and connected persons of the Company.

The amount of the Investment will be paid by cash and it was determined with reference to the amount of registered capital of Qiushi. The Directors, including the independent non-executive Directors, believe that the Investment is fair and reasonable and in the interests of the shareholders of the Company as a whole.

Completion

Completion of the Investment is conditional upon, among others, (i) the approval by Qiushi of the transaction contemplated under the Subscription Agreement; and (ii) there having been no material adverse change to the business and financial conditions of Qiushi prior to the Completion.

Subject to the fulfillment or waiver of the conditions precedent pursuant to the Subscription Agreement, Completion shall take place within 15 working days following the fulfillment or waiver of all of the conditions precedent under the Subscription Agreement.

Business of Qiushi and Reasons for the Investment

Qiushi was established in the PRC in September 2011 and is principally engaged in planting and sale of Forage Grass. Qiushi is currently growing its pastures and selling Forage Grass. Qiushi's pastures are located in Anhui Province, which are in close proximity to the dairy farms of the Group in the same area.

Based on the unaudited management accounts of Qiushi, the net asset value of Qiushi and its subsidiaries was RMB83.4 million as at 30 September 2012. The following information is a summary of the consolidated financial statements of Qiushi and its subsidiaries for the financial year ended 31 December 2011 and the nine months ended 30 September 2012:

	For the financial year ended 31 December 2011⁽¹⁾ RMB	For the nine months ended 30 September 2012 RMB
Net profits/(loss) before tax and extraordinary items	(5,680,993)	8,526,305
Net profits/(loss) after tax and extraordinary items	(5,680,993)	8,526,305

Note:

(1) Qiushi was incorporated in September 2011.

Qiushi is one of the Forage Grass suppliers of the Group. References are made to the announcement and the circular of the Company dated October 10, 2012 and November 12, 2012, respectively, in respect of the New Framework Supply Agreement, pursuant to which Qiushi and its subsidiaries agreed to supply Forage Grass to Modern Farm and its subsidiaries for a term commencing from November 30, 2012 to June 30, 2015 and the maximum aggregate purchase amount for each of the financial year ending 30 June 2013, 2014 and 2015 shall not exceed RMB357,800,000, RMB486,060,000 and RMB535,840,000. The New Framework Supply Agreement was approved by the shareholders at the EGM on November 30, 2012.

After its commencement of operation in January 2012, Qiushi requires further financing to improve its financial position. The Directors consider it is in the interest of the Company to make the Investment to maintain its percentage of equity interests in Qiushi and expects the Company will benefit in the long term by investing in Qiushi.

Information on 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.

Information on Modern Farm

Modern Farm is an indirect non-wholly owned subsidiary of the Company and is an investment holding company of its subsidiaries that 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.

Listing Rules Implications

Qiushi is a connected person of the Company under Rule 14A.11(4)(b)(ii) 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. As the applicable percentage ratios (as defined in Chapter 14 of the Listing Rules) of the Investment are more than 0.1% but less than 5%, the entering into the Subscription Agreement by Modern Farm, being on normal commercial terms, is exempt from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules.

Definitions

In this announcement, the following expressions have the following meanings unless the context requires otherwise.

“%”	percent;
“Board”	the board of Directors of the Company;
“Business Day”	a day (other than a Saturday) on which banks in Hong Kong are open to conduct business in Hong Kong generally throughout their normal business hours;
“Company”	China Modern Dairy Holdings Ltd. (中國現代牧業控股有限公司) (formerly known as “Advanced Dairy II Company Limited”), an exempted company incorporated in the Cayman Islands on July 30, 2008 with limited liability under the laws of Hong Kong, the ordinary shares of which are listed on the main board of the Hong Kong Stock Exchange;
“Completion”	Completion of the Investment within 15 Business Days following the fulfillment or waiver of all of the conditions precedent under the Subscription Agreement;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company convened on November 30, 2012 at which the New Framework Supply Agreement was approved;
“Forage Grass”	alfafa, oat grass, silage corn and wheat straw;
“Group”	the Company and its subsidiaries;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Investment”	the capital contribution of RMB7.74 million in Qiushi made by Modern Farm pursuant to the Subscription Agreement;
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange;

“Modern Farm”	Modern Farming (Group) Co., Ltd., a non-wholly owned subsidiary of the Company;
“New Framework Supply Agreement”	the New Framework Supply Agreement entered into by Modern Farm and Qiushi on October 10, 2012;
“Parties”	parties to the Subscription Agreement;
“PRC”	the People’s Republic of China, and for the purposes of this announcement, excludes, Hong Kong, Taiwan and Macau Special Administrative Region;
“Qiushi”	秋實草業有限公司 (Qiushi Grass Industry Co. Ltd.), a company incorporated in the PRC as a limited liability company on September 30, 2011;
“RMB”	Renminbi, the lawful currency of the PRC; and
“Subscription Agreement”	the subscription agreement entered into between 鄧源 (Deng Yuan), 亓小航 (Qi Xiaohang), 岳微 (Yue Wei), 王曉 (Wang Xiao), 郝培根 (Hao Peigen) and 徐智明 (Xu Zhiming), Modern Farm dated December 17, 2012.

On behalf of the Board
China Modern Dairy Holdings Ltd.
WOLHARDT Julian Juul
Chairman

Hong Kong, December 17, 2012

As of the date of this announcement, the executive Directors are Ms. GAO Lina, Mr. HAN Chunlin, Mr. DENG Jiuqiang, the non-executive Directors are Mr. WOLHARDT Julian Juul, Mr. HUI Chi Kin Max and Mr. LEI Yongsheng, the independent non-executive Directors are Prof. LI Shengli, Prof. GUO Lianheng and Mr. LEE Kong Wai Conway.