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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)

**CONTINUING CONNECTED TRANSACTIONS
SUBJECT TO RULE 14A.41 REQUIREMENTS**

As disclosed in the section headed “Relationship with Mengniu” of the Prospectus, the Company started to sell raw milk to Mengniu in 2006, and on October 24, 2008, Modern Farming entered into the Off-Take Agreement with Mengniu (Inner Mongolia), pursuant to which the Company shall supply raw milk to Mengniu (Inner Mongolia).

On April 25, 2013, Feidong Modern Farm and Mengniu (Inner Mongolia) entered into the Processing Agreement, pursuant to which Mengniu (Inner Mongolia) shall commission Feidong Modern Farm to process its “Mengniu” liquid milk products.

On the Effective Date, the shareholding interest of Mengniu in the Company increased to 10% or more, meaning that Mengniu became a substantial shareholder of the Company, and thus a connected person of the Company pursuant to Rule 14A.11 of the Listing Rules with effect from the Effective Date. As Mengniu (Inner Mongolia) is a non-wholly owned subsidiary of Mengniu, it also became a connected person of the Company pursuant to Rule 14A.11 of the Listing Rules with effect from the Effective Date. As a result, the transactions contemplated under the Off-Take Agreement and the Processing Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules with effect from the Effective Date.

Pursuant to Rule 14A.41 of the Listing Rules, the transactions contemplated under the Off-Take Agreement and the Processing Agreement are subject to the applicable reporting and disclosure requirements of Chapter 14A of the Listing Rules. The Company will comply in full with all applicable reporting, disclosure and, if applicable, independent shareholders' approval requirements under Chapter 14A of the Listing Rules upon any variation or renewal of the Off-Take Agreement or the Processing Agreement.

BACKGROUND

Reference is made to the Prospectus. As disclosed in the section headed "Relationship with Mengniu" of the Prospectus, the Company started to sell raw milk to Mengniu in 2006, and in October 24, 2008 following arm's length negotiations, Modern Farming entered into the Off-Take Agreement with Mengniu (Inner Mongolia), pursuant to which the Company shall supply raw milk to Mengniu (Inner Mongolia).

On April 25, 2013, Feidong Modern Farm and Mengniu (Inner Mongolia) entered into the Processing Agreement, pursuant to which Mengniu (Inner Mongolia) shall commission Feidong Modern Farm to process its "Mengniu" liquid milk products.

On the Effective Date, the shareholding interest of Mengniu in the Company increased to 10% or more, meaning that Mengniu became a substantial shareholder of the Company, and thus a connected person of the Company pursuant to Rule 14A.11 of the Listing Rules with effect from the Effective Date. As Mengniu (Inner Mongolia) is a non-wholly owned subsidiary of Mengniu, it also became a connected person of the Company pursuant to Rule 14A.11 of the Listing Rules with effect from the Effective Date. As a result, the transactions contemplated under the Off-Take Agreement and the Processing Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules with effect from the Effective Date.

OFF-TAKE AGREEMENT

Date : October 24, 2008

Parties : (i) Modern Farming, a non-wholly owned subsidiary of the Company

(ii) Mengniu (Inner Mongolia), a non-wholly owned subsidiary of Mengniu

- Nature of the Transaction : Modern Farming shall supply raw milk to Mengniu (Inner Mongolia).
- Committed Purchase : Both parties shall start to discuss estimates of annual supply three months prior to the beginning of each calendar year. Should the parties fail to reach an agreed amount, Modern Farming shall be entitled to require Mengniu (Inner Mongolia) to purchase, subject to certain limitations, all of its raw milk production in the upcoming calendar year.
- Right to sell to other parties : Modern Farming may sell up to 30% of its raw milk produced daily at each dairy farm to third parties at its discretion, except to two of Mengniu's competitors. Other than the aforesaid, the Off-Take Agreement contains no other restrictions on Modern Farming's sales of raw milk to third parties or development of its own dairy products.
- Pricing : The pricing of the raw milk sold to Mengniu (Inner Mongolia) is determined through a formula which is calculated with reference to a base price with upward adjustment for meeting certain quality standards, such as the level of fat and protein content and other upward adjustments if the Modern Farming's farms are within an agreed proximity to Mengniu Group's dairy processing plants. The base price is based on the price which Mengniu Group at the relevant time offers to buy raw milk from other mid- to large-scale dairy farms (which can offer raw milk of comparable quality) or, if there are no such mid- to large-scale dairy farms in such region, other comparable dairy farms in nearby regions with adjustments (reflecting the prices in different regions).

The base price and upward adjustment payable by Mengniu Group under the Off-Take Agreement shall not be lower than the base price and upward adjustment it pays respectively to other mid- to large-scale dairy farms in the same region (other than short-term reward programs offered to milk suppliers that only account for a small portion of Mengniu Group's total raw milk purchases). Mengniu (Inner Mongolia) also grants Modern Farming an option to sell to Mengniu (Inner Mongolia) the same amount of raw milk at the same terms and prices Mengniu (Inner Mongolia) offers to any third party suppliers.

Payment	:	Mengniu Group shall pay the Group for raw milk delivered on a monthly basis, apart from the newly operated farms which shall be paid fortnightly during the first two years of its operation.
Term	:	The Off-Take Agreement shall be for an term of 10 years commencing from October 24, 2008 and will be automatically extend for another 10 years upon expiry in the absence of any force majeure or events of default.
Termination	:	Modern Farming is entitled to terminate the Off-Take Agreement if Mengniu Group ceases to be among the 10 largest dairy processors in the PRC by revenue in any given financial year.
Applicable laws	:	the laws of the PRC

Please refer to the section headed “Relationship with Mengniu” of the Prospectus for further details.

PROCESSING AGREEMENT

Date	:	April 25, 2013
Parties	:	(i) Feidong Modern Farm, an indirect non-wholly owned subsidiary of the Company (ii) Mengniu (Inner Mongolia), a non-wholly owned subsidiary of Mengniu
Subject Matter	:	Mengniu (Inner Mongolia) shall commission Feidong Modern Farm to process its “Mengniu” liquid milk products.
Processing Fees	:	The processing fees are determined through a formula which is calculated with reference to the unit processing price and the actual processing volume. Mengniu (Inner Mongolia) does not need to pay for any fees or expenses other than the aforesaid processing fees.

Payment : Feidong Modern Farm shall issue an invoice in respect of the previous month's processing fees before the 15th calendar day of every month. Mengniu (Inner Mongolia) shall settle the payment for the processing fees within fourteen (14) Business Days after receiving the aforesaid invoice.

Term : From April 25, 2013 to December 31, 2013

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Company believes by entering into the Off-Take Agreement, the strategic partnership with Mengniu Group is mutually beneficial to both the Company and to Mengniu Group. The partnership is beneficial to the Company in securing long-term demand from a high-quality customer.

By entering into the Processing Agreement, the Company believes this can meet the shortfall in the utilization of the production capacity of its liquid milk processing lines, thus reducing the production cost of products under the Company's own brand and increasing the gross profit margin.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Off-Take Agreement and the Processing Agreement are on normal commercial terms, and are fair and reasonable and in the interests of the shareholders of the Company as a whole.

INFORMATION OF THE COMPANY AND MENGNIU (INNER MONGOLIA)

Feidong Modern Farm is principally engaged in production of milk.

The Group is the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China.

Mengniu (Inner Mongolia) is an indirect non-wholly owned subsidiary of Mengniu which is an investment holding company and the Mengniu Group is principally engaged in the manufacture and distribution of quality dairy products in the PRC.

LISTING RULES IMPLICATIONS

On the Effective Date, the shareholding interest of Mengniu in the Company increased to 10% or more, meaning that Mengniu became a substantial shareholder of the Company, and thus a connected person of the Company pursuant to Rule 14A.11 of the Listing Rules with effect from the Effective Date. As Mengniu (Inner Mongolia) is a non-wholly subsidiary of Mengniu, it also became a connected person of the Company pursuant to Rule 14A.11 of the Listing Rules with effect from the Effective Date. As a result, the transactions contemplated under the Off-Take Agreement and the Processing Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules with effect from the Effective Date.

Pursuant to Rule 14A.41 of the Listing Rules, the transactions contemplated under the Off-Take Agreement and the Processing Agreement are subject to the applicable reporting and disclosure requirements of Chapter 14A of the Listing Rules. The Company will comply in full with all applicable reporting, disclosure and, if applicable, independent shareholders' approval requirements under Chapter 14A of the Listing Rules upon any variation or renewal of the Off-Take Agreement or the Processing Agreement.

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 and Sunday) on which banks in the PRC usually open up and handle the routine banking businesses and transactions;
“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;
“Director(s)”	the director(s) of the Company;

“Effective Date”	the date on which the shareholding interest of Mengniu in the Company increased to 10% or more and, to the best knowledge of the Company, falling on or around May 21, 2013;
“Feidong Modern Farm”	現代牧業(肥東)有限公司 (Modern Farming (Feidong) Co., Ltd., a limited liability company incorporated in the PRC on December 2, 2009, a non-wholly owned subsidiary of the Company;
“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;
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange;
“Mengniu”	China Mengniu Dairy Company Limited (stock code: 2319), a company incorporated in the Cayman Islands whose shares are listed on the Hong Kong Stock Exchange, which is the holding company of Mengniu (Inner Mongolia);
“Mengniu Group”	Mengniu and its subsidiaries;
“Mengniu (Inner Mongolia)”	內蒙古蒙牛乳業(集團)股份有限公司 (Inner Mongolia Mengniu Dairy (Group) Company Limited), a limited liability company incorporated in the PRC, being a non-wholly owned subsidiary of Mengniu and a shareholder of Modern Farming;
“Modern Farming”	現代牧業(集團)有限公司 (Modern Farming (Group) Co., Ltd.) (formerly known as 馬鞍山現代牧業有限公司 (Ma Anshan Modern Farming Co., Ltd)), a non-wholly owned subsidiary of the Company.
“Off-Take Agreement”	an off-take raw milk supply agreement entered into between the Company and Mengniu (Inner Mongolia) on October 24, 2008;
“PRC”	the People’s Republic of China, and for the purposes of this announcement, excludes, Hong Kong, Taiwan and Macau Special Administrative Region;

“Processing Agreement” an agreement entered into between Feidong Modern Farm and Mengniu (Inner Mongolia) on April 25, 2013;

“Prospectus” the prospectus in respect of the initial public offering of the Company’s shares on the Hong Kong Stock Exchange dated November 15, 2010.

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

Hong Kong, May 23, 2013

As of the date of this announcement, the executive Directors are Ms. GAO Lina, Mr. HAN Chunlin, 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.