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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)

ANNOUNCEMENT FORMATION OF JOINT VENTURE

PROPOSED ESTABLISHMENT OF THE JOINT VENTURE

On 23 September 2013, the Company entered into the Joint Venture Agreement I with Success Dairy, pursuant to which the Company and Success Dairy have agreed to invest in the JVco as a joint venture company to design, construct and operate the Dairy Farm for the purpose of, amongst others, breeding, raising and sale of dairy cattle, production, processing and sale of raw milk, production of processed milk under OEM contracts for other processors and the sale of fertilizers. Upon Closing, the Company will own 18% of the issued share capital of the JVco and Success Dairy will own 82% of the issued share capital of the JVco.

The Company and Success Dairy will make initial capital contributions in cash in accordance with their respective ownership ratios, being US\$5.4 million to be paid by the Company and US\$24.6 million to be paid by Success Dairy. Subject to the terms and conditions of the Joint Venture Agreement I, the Company and Success Dairy shall make further capital contributions in an aggregate amount of US\$40 million in accordance with their respective ownership ratios, being US\$7.2 million to be paid by the Company and US\$32.8 million to be paid by Success Dairy.

On the same day, the Company entered into the Joint Venture Agreement II with Success Dairy to invest in another joint venture entity to design, construct and operate a second dairy farm substantially similar to the Dairy Farm. Closing of the Joint Venture Agreement II is subject to customary conditions and will take place at the end of the 12th month after the date of the Joint Venture Agreement II, or such other date as the parties may agree in writing. The terms and conditions of Joint Venture Agreement II are otherwise on substantially the same terms as the Joint Venture Agreement I.

1. INTRODUCTION

The Board is pleased to announced that on 23 September 2013, the Company entered into the Joint Venture Agreement I with Success Dairy, pursuant to which the Company and Success Dairy have agreed to invest in the JVco as a joint venture company to design, construct and operate the Dairy Farm for the purpose of the Business.

On the same day, the Company entered into the Joint Venture Agreement II with Success Dairy to invest in another joint venture entity to design, construct and operate a second dairy farm substantially similar to the Dairy Farm. Closing of the Joint Venture Agreement II is subject to customary conditions and will take place at the end of the 12th month after the date of the Joint Venture Agreement II, or such other date as the parties may agree in writing. The terms and conditions of the Joint Venture Agreement II are otherwise on substantially the same terms as the Joint Venture Agreement I.

2. MATERIAL TERMS OF THE JOINT VENTURE AGREEMENT I

(a) Date

23 September 2013

(b) Parties

- (i) The Company;
- (ii) Success Dairy; and
- (iii) JVco.

(c) Shareholding Structure of the JVco

Upon Closing, the Company will own 18% of the issued share capital of the JVco and Success Dairy will own 82% of the issued share capital of the JVco.

(d) Capital Contribution

The Company and Success Dairy will make initial capital contributions in cash in accordance with their respective ownership ratios, being US\$5.4 million to be paid by the Company and US\$24.6 million to be paid by Success Dairy.

The Company and Success Dairy further agree that, prior to the purchase of dairy cows by JVco referred to in 2(f) below and subject to the terms and conditions of the Joint Venture Agreement I, they shall make further capital contributions in an aggregate amount of US\$40 million in accordance with their respective ownership ratios, being US\$7.2 million to be paid by the Company and US\$32.8 million to be paid by Success Dairy.

(e) Closing

Closing of the Joint Venture Agreement I is subject to customary conditions and will take place on the thirtieth day after the date of the Joint Venture Agreement I, or such other date as the Parties may agree in writing.

(f) Purchase of Dairy Cows

The JVco will purchase approximately 6,600 dairy cows from the Company at a price with reference to the fair value of dairy cows as at 30 June 2013 pursuant to the valuation procedures performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

(g) Management of the JVco

The board of directors of the JVco will consist of 6 directors, of which the Company will be entitled to nominate one director and Success Dairy will be entitled to nominate four directors. The chief executive officer of the JVco shall also be appointed as a director of the JVco.

In the event that the Company acquires further shares in the JVco, the Company shall be entitled to nominate additional director(s) to the board of directors of the JVco provided that the number of directors to be nominated by the Company and Success Dairy shall be determined based upon the allocation that most closely approximates a ratio of one director for each 20% of shares in issue acquired on a cumulative basis.

(h) Sale of Milk

The Company agrees that it will be responsible for the milk sales of the JVco and will procure that at all times the milk of the JVco will be sold on terms no less favourable than the terms of the Company's sales in the same geographical region.

(i) Put Option and Call Option

The Company has granted Success Dairy the Put Option and Success Dairy has granted the Company the Call Option. The Company's rights and obligations in relation to the exercise of Put Option and Call Option are subject to the compliance of any applicable requirements under the Listing Rules.

The exercise price for the Put Option and the Call Option shall be calculated with reference to the highest of the following:

- (i) $((\text{Market Capitalization} + \text{Company Net Debt}) / \text{Company LTM Cash EBITDA} \times 0.8 \times \text{JVco LTM Cash EBITDA} - \text{JVco Net Debt}) \times \text{Success Dairy's shareholding in the JVco}$;
- (ii) $(12 \times \text{JVco LTM Cash EBITDA} - \text{JVco Net Debt}) \times \text{Success Dairy's shareholding in the JVco}$; and
- (iii) 7% compound investment rate of return on the capital contribution by Success Dairy.

The Put Option and the Call Option may be exercised anytime between three to seven years after the first day on which the Dairy Farm produces milk for sale. Upon the occurrence of a Put Option Triggering Event or a Call Option Triggering Event, the non-defaulting party shall be entitled to exercise the Put Option or Call Option (as the case maybe) immediately.

(j) Postponement of Transfer after the exercise of Put or Call

If a JV Party chooses to exercise all or part of the Put Option or Call Option, the other JV Party shall have the right to require the transfer of any or all shares of the JVco held by Success Dairy be postponed by 12 months from the date on which the relevant Notice is dispatched, and the price payable by the Company to Success Dairy shall be assessed as if the relevant Notice is received on the same date 12 months after the date of the actual Notice.

(k) Restriction on Transfer of the shares of the JVco

No JV Parties shall itself, nor permit its affiliates to (except where the Put Option or the Call Option is exercised) sell, assign, transfer, encumber, hypothecate, pledge, or otherwise alienate or dispose of all or any part of its ownership interest in the JVco. Success Dairy shall not however be subject to such restriction upon the occurrence of a Put Option Triggering Event and the Company shall not be subject to such restriction upon the occurrence of a Call Option Triggering Event.

3. MATERIAL TERMS OF JOINT VENTURE AGREEMENT II

If (i) the financing of JVco has been provided by the JV Parties pursuant to 2(d) above, (ii) the construction of the Dairy Farm has been on schedule as agreed between the JV Parties, (iii) the JVco has purchased the dairy cows pursuant to 2(f) above, (iv) the operation of the JVco has been in normal course without any Material Adverse Effect, and (v) neither JV Party has materially breached the Joint Venture Agreement I, subject to the terms of the Joint Venture Agreement II, the JV Parties shall cause their respective affiliates to establish a new farm substantially similar to the Dairy Farm, and shall cause such dairy farm to be owned by a separate company established and owned by respective affiliates of the JV Parties in accordance with the same initial ownership ratio as the Company. Closing of the Joint Venture Agreement II is subject to customary conditions and will take place at the end of the 12th month after the date of the Joint Venture Agreement II, or such other date as the parties may agree in writing. The terms and conditions of the Joint Venture Agreement II are otherwise on substantially the same terms as the Joint Venture Agreement I.

4. REASONS FOR AND BENEFITS OF THE JOINT VENTURE

The Company believes that the formation of the Joint Venture is in the best interests of the Group for the following reasons:

- (i) comparing with setting up dairy farms by itself, investing in the Joint Venture reduces short term capital expenditure and improves the Company's cash flow;
- (ii) the Joint Venture resolves the issue of excess heifers due to the Company's natural herd growth. Moreover, the proceeds received from the sale of dairy cows will have positive contribution on the Company's revenue and profitability;
- (iii) the call option arrangement for the Joint Venture enables the Company to acquire 100% of the Joint Venture in the future when the farms are profitable to support the Company's long term growth; and
- (iv) since the Company is responsible for the milk sales of the Joint Venture, the Joint Venture will continue to provide quality raw milk to our key customers.

5. INFORMATION OF THE COMPANY

The Group is the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China. It is headquartered in China's eastern province of Anhui, and its primary business is raising dairy cows and selling raw milk to branded dairy companies for processing into consumer dairy products. As of June 30, 2013, the Group had 22 farms in operation in China with approximately 177,921 dairy cows in total. The Group's farms are situated across the PRC in strategic geographical locations that are close to downstream dairy product processing plants and feed supply sources.

6. INFORMATION OF SUCCESS DAIRY

Success Dairy is a joint venture entity ultimately held by New Dairy Investment Ltd and Crown Dairy Holdings Limited.

New Dairy Investment Ltd is a subsidiary of KKR China Growth Fund L.P., which focuses on growth investment opportunities in Greater China, which includes China, Hong Kong and Taiwan. The general partner of KKR China Growth Fund L.P. is KKR Associates China Growth L.P. KKR China Growth Fund L.P. is advised by Kohlberg Kravis Roberts & Co. L.P., a subsidiary of KKR & Co. L.P., whose common units are traded on the New York Stock Exchange. Mr. Wolhardt Julian Juul, a non-executive Director, is also a member of KKR Asia Limited, which is an affiliate of KKR China Growth Fund L.P., which wholly-owns New Dairy Investment Ltd.

Crown Dairy Holdings Limited is a wholly-owned subsidiary of CDH Fund IV, L.P., which focuses on private equity investments. The general partner of CDH Fund IV, L.P. is CDH IV Holdings Company Limited. CDH Fund IV, L.P. is managed by CDH China Management Company Limited. Mr. Hui Chi Kin Max, a non-executive Director, is also a managing director of CDH China Management Company Limited, the manager of CDH Fund IV, L.P.

Both Mr. Wolhardt and Mr. Hui have abstained from voting on the resolutions of the Board for approving this transaction. Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, New Dairy Investment Ltd and Crown Dairy Holdings Limited and its ultimate beneficial owner are third parties independent of the Company and its Connected Persons.

7. DEFINITIONS

“%”	percent
“Board”	the board of Directors of the Company
“Business”	(i) breeding, raising and sale of dairy cattle; (ii) production, processing and sale of raw milk; (iii) production of processed milk for self-owned brands and production of processed dairy products under OEM contracts for other processors, (iv) sale of fertilizers and (v) any other businesses or activities or make such other investments as may be approved by the board of directors of the JVco from time to time
“Business Day”	a day (other than a Saturday or Sunday) officially identified by government or authorities as a working day in Hong Kong, New York and the People’s Republic of China
“Cash EBITDA”	earnings before interest expenses, taxation, depreciation, amortization and gain/loss arising from changes in fair value less cost of sales of dairy cows consistent with the current practice of the Company and for the avoidance of doubt, the following are not included as expenses in the calculation of Cash EBITDA: (i) option expenses, (ii) any expenses arising from equity arrangements with the Company’s management or their affiliates, (iii) other expenses that are not included in the Cash EBITDA calculation consistent with current practice of the Company
“Call Option”	the call option granted by Success Dairy under the Joint Venture Agreement I pursuant to which the Company is entitled to require Success Dairy to sell up to all its shares in the JVco and all loans or borrowings owed by the JVco to Success Dairy
“Call Option Notice”	the written notice given by the Company to Success Dairy notifying that it chooses to exercise all or part of the Call Option

“Call Option Triggering Event”	a material breach of the Joint Venture Agreement I by Success Dairy and it has not promptly rectified such breach
“Closing”	the completion of the initial capital contributions by the JV Parties pursuant to the Joint Venture Agreement I
“Company”	China Modern Dairy Holdings Ltd. (中國現代牧業控股有限公司), 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 Stock Exchange
“Company LTM Cash EBITDA”	the Cash EBITDA of the Company for the last 12 months prior to the date of the relevant Notice
“Company Net Debt”	the Net Debt of the Company as of the date of its latest balance sheet reported to the shareholders of the Company
“Connected Person”	has the meaning given to it in the Listing Rules
“Dairy Farm”	the dairy farm to be designed, constructed and operated by the JVco through its wholly owned subsidiaries
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Joint Venture”	JVco and the joint venture entity to be incorporated pursuant to the Joint Venture Agreement II
“Joint Venture Agreement I”	the Subscription and joint venture agreement entered into between the Parties dated 23 September 2013
“Joint Venture Agreement II”	the subscription and joint venture agreement entered into between the Company and Success Dairy dated 23 September 2013 on substantially the same terms as the Joint Venture Agreement I
“JV Parties”	the Company and Success Dairy

“JVco”	Asia Dairy Holdings, an exempted company organized under the laws of the Cayman Islands with its registered office at Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands
“JVco LTM Cash EBITDA”	the Cash EBITDA of JVco for the last 12 months prior to the date of the relevant Notice
“JVco Net Debt”	the Net Debt of JVco prior to the date of the relevant Notice
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Market Capitalization”	the market capitalization of the Company calculated based on the average closing price of the shares of the Company for the 30 trading days before the date of the relevant Notice
“Material Adverse Effect”	any change, event, circumstance, occurrence, condition or effect that is materially adverse to the business, prospects, assets, financial or other condition or results of operations of the Company, including without limitation any disease that is materially adverse to the cows raised on the Dairy Farm taken as a whole and any natural disaster (including persistent bad weather) that is materially adverse to the Business
“Net Debt”	interest bearing liability minus cash and cash equivalents
“Notice”	the relevant Call Option Notice or Put Option Notice
“OEM”	original equipment manufacturers
“Parties”	the Company, Success Dairy and the JVco

“PRC”	the People’s Republic of China, and for the purposes of this announcement, excludes, Hong Kong, Taiwan and Macau Special Administrative Region
“Project Agreement”	the project agreement to be entered into between JVco and the People’s Government of Shanghe County, Jinan
“Put Option”	the put option granted by the Company under the Joint Venture Agreement I pursuant to which Success Dairy is entitled to require the Company to purchase up to all its shares in the JVco and all loans or borrowings owed by the JVco to Success Dairy
“Put Option Notice”	the written notice given by Success Dairy to the Company notifying that it chooses to exercise all or part of the Put Option
“Put Option Triggering Event”	includes the following events: (i) a material breach of the Joint Venture Agreement I by the Company and it has not promptly rectified such breach; (ii) the Company dispatches a notice to convene a general meeting of shareholders to pass a resolution that would result in the Company being delisted from the Main Board of the Stock Exchange; or (iii) the initial director nominated by the Company to the board of the JVco ceases to be a director of the JVco and the Company fails to appoint a replacement director who is capable of discharging his/her director duties
“Shareholders”	the holder of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Success Dairy”	Success Dairy II Limited, an exempted company organized under the laws of the Cayman Islands with its registered office at Maples Corporate Services Limited, PO Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands

“US\$”

United States dollars, the lawful currency of the United States

On behalf of the Board
China Modern Dairy Holdings Ltd.
YU Xubo
Chairman

Hong Kong, 24 September 2013

As of the date of this announcement, the executive Directors are Ms. GAO Lina, Mr. HAN Chunlin and Mr. SUN Yugang, the non-executive Directors are Mr. YU Xubo, Mr. WOLHARDT Julian Juul, Mr. HUI Chi Kin Max, Mr. LEI Yongsheng and Mr. DING Sheng, the independent non-executive Directors are Prof. LI Shengli, Mr. LEE Kong Wai Conway, Mr. LIU Fuchun and Mr. KANG Yan.