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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)

**DISCLOSEABLE TRANSACTION AND
CONNECTED TRANSACTION RELATING TO
ACQUISITION OF 45% EQUITY INTEREST IN MFDPS
INVOLVING ISSUE OF CONSIDERATION SHARES
UNDER SPECIFIC MANDATE**

ACQUISITION OF 45% EQUITY INTEREST IN MFDPS

The Board is pleased to announce that on June 16, 2016 (after trading hours), the Company entered into the Sale and Purchase Agreement with the Sellers, pursuant to which the Company has conditionally agreed to acquire, and the Sellers have conditionally agreed to sell, the Sale Shares (representing 45% equity interest in MFDPS after the completion of the Reorganization) for the issue of the Consideration Shares at the Issue Price of HK\$1.46 per Consideration Share to the Sellers.

PROPOSED GRANT OF SPECIFIC MANDATE

At the EGM, the Company will seek the Specific Mandate from the Independent Shareholders in order to issue the Consideration Shares.

LOCK-UP UNDERTAKING

Pursuant to the Sale and Purchase Agreement, each of the Sellers undertakes to the Company, amongst others, that it will not directly or indirectly dispose of, nor directly or indirectly enter into any agreement to dispose of, any of the Consideration Shares within one year from the Completion Date. Subject to the escrow arrangement in the paragraph headed “The Sale and Purchase Agreement — Escrow Arrangement” in this announcement, the Sellers may, after the expiration of the Lock-up Period, dispose of, or enter into any agreement to dispose of, the Consideration Shares.

ESCROW ARRANGEMENT

At Completion, the Company and the Sellers shall jointly appoint the Escrow Agent and the Escrow Shares shall be deposited into the Escrow Account. The Escrow Account shall be jointly-controlled by both the Company and the Sellers and none of the Escrow Shares shall be released from the Escrow Account or dealt with by anyone without the express written consent by the Company. The Company shall instruct the Escrow Agent to release any Escrow Shares held under the Escrow Account on the earlier of the following events:

- (i) the Sellers having achieved the Performance Targets; and
- (ii) by mutual agreement between the Company and the Sellers.

LISTING RULES IMPLICATIONS

As the highest applicable ratio under Rule 14.07 of the Listing Rules of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, MFDPS is owned as to 55% and 45% by PRC Holdco and the Sellers, respectively. PRC Holdco is in turn held as to 97.87% by the Company. Accordingly, the Sellers are connected persons of the Company and the entering into of the Sale and Purchase Agreement and transactions contemplated thereunder (including the issue of the Consideration Shares pursuant to the Specific Mandate) constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

GENERAL

An EGM will be convened and held by the Company to consider and, if thought fit, approve the Sale and Purchase Agreement and transactions contemplated thereunder (including issue of Consideration Shares pursuant to the Specific Mandate). The voting at the EGM will be taken by poll.

An Independent Board Committee comprising all the independent non-executive Directors, namely Prof. LI Shengli, Mr. LEE Kong Wai Conway, Mr. KANG Yan and Mr. ZOU Fei, has been established to advise the Independent Shareholders on matters in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration Shares pursuant to the Specific Mandate). The Company will in due course appoint an independent financial advisor to advise the Independent Board Committee and the Independent Shareholders on matters in relation to the Sale and Purchase Agreement and transactions contemplated thereunder (including the issue of the Consideration Shares pursuant to the Specific Mandate).

A Circular containing, among others, the particulars of the Sale and Purchase Agreement together with a letter from the Independent Board Committee, a letter from the independent financial adviser and a notice of the EGM is expected to be despatched to the Shareholders on or about July 8, 2016.

The Acquisition is subject to the fulfillment of a number of conditions precedent which are detailed in the sections headed “The Sale and Purchase Agreement — Conditions Precedent” in this announcement. As the Acquisition may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in Shares.

THE ACQUISITION

The Board is pleased to announce that on June 16, 2016 (after trading hours), the Company entered into the Sale and Purchase Agreement with the Sellers, pursuant to which the Company has conditionally agreed to acquire, and the Sellers have conditionally agreed to sell, the Sale Shares (representing 45% equity interest in MFDPS after the completion of the Reorganization) for the issue of the Consideration

Shares at the Issue Price of HK\$1.46 per Consideration Share to the Sellers. Principal terms of the Sale and Purchase Agreement are summarized below:

THE SALE AND PURCHASE AGREEMENT

Date

June 16, 2016

Parties

- (1) the Company
- (2) the Sellers

Assets to be acquired

The Sale Shares represent the entire issued share capital of Target Co, which will hold 45% equity interest in MFDPS through HK Holdco and WFOE Holdco after the Reorganization.

Consideration

The consideration (the “**Consideration**”) payable by the Company to the Sellers is the Consideration Shares to be issued by the Company to the Sellers, which has been arrived at after arm’s length negotiations between the Company and the Sellers after taking into account, among other things, the earnings capability, growth prospects and financial and operating performance of the Target Group.

The Consideration shall be satisfied at Completion by the allotment and issue by the Company of 338,602,205 new Shares (i.e. the Consideration Shares) to the Sellers.

Consideration Shares

The total number of Consideration Shares represents:

- (1) approximately 6.38% of the issued share capital of the Company as at the date of this announcement; and
- (2) approximately 6.00% of the issued share capital of the Company as enlarged by the issue of Consideration Shares.

Issue Price

The Issue Price of HK\$1.46 per Consideration Share represents:

- (i) a premium of approximately 9.77% to the closing price of HK\$1.33 per Share as quoted on the Stock Exchange on the date of the Sale and Purchase Agreement;
- (ii) a premium of approximately 7.35% to the average of the closing prices per Share of approximately HK\$1.36 for the last five consecutive days as quoted on the Stock Exchange up to and including the date of the Sale and Purchase Agreement; and
- (iii) a premium of approximately 5.80% to the average of the closing prices per Share of approximately HK\$1.38 for the last ten consecutive trading days as quoted on the Stock Exchange up to and including the date of the Sale and Purchase Agreement.

Basis for Determining the Consideration

The Consideration is arrived at after arm's length negotiations between the Company and MFDPS with reference to various factors including: (1) the recent financial position and performance of MFDPS; (2) the outlook of the business of wholesale and retail of milk products in the PRC; (3) the prevailing and historical trading prices of the Shares and the current market conditions; and (4) the commercial reasons and benefits set out in the paragraphs headed "Reasons for and Benefits of the Acquisition" below.

Specific Mandate

At the EGM, the Company will seek the Specific Mandate from the Independent Shareholders in order to issue the Consideration Shares.

Ranking of the Consideration Shares

The Consideration Shares, when allotted and issued, will rank *pari passu* in all respects among themselves free from all lien, charge, guarantee, adverse interests and adverse claims, and with the Share in issue on the date of allotment and issue of the Consideration Shares.

Application for Listing

Application will be made to the Listing Committee of the Stock Exchange of the listing of and permission to deal in, the Consideration Shares. Details of the impact of the Consideration Shares on the shareholding structure of the Company are set out in the section headed "Impact on the shareholding structure of the Company" in this announcement.

Lock-up Undertaking

Each of the Sellers undertakes to the Company, amongst others, that it will not directly or indirectly dispose of, nor directly or indirectly enter into any agreement to dispose of, any of the Consideration Shares within one year from the Completion Date (the “**Lock-up Period**”). Subject to the escrow arrangement in the paragraph headed “The Sale and Purchase Agreement — Escrow Arrangement” in this announcement, the Sellers may, after the expiration of the Lock-up Period, dispose of, or enter into any agreement to dispose of, the Consideration Shares.

Conditions Precedent

The Completion is conditional on the following conditions having been fulfilled on or before the Long Stop Date:

- (a) the obtaining of the approval from the Independent Shareholders of the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration Shares to the Sellers) in accordance with the requirements under the Listing Rules;
- (b) the Listing Committee granting the listing of, and permission to deal in, the Consideration Shares (and such grant not having been revoked or withdrawn), either unconditionally or subject to such conditions as are accepted by the Company;
- (c) the Reorganization having been completed;
- (d) the Company having obtained a legal opinion on (i) the completion, validity and legality of the Reorganization; and (ii) the full settlement of all taxes, fees and duties payable by the Sellers in relation to or as a result of the Reorganization from a PRC legal adviser in the form and substance to the satisfaction of the Company;
- (e) the Company having received the following information from the Sellers:
 - (i) a complete list of the Distributors containing contact details of each Distributor; and
 - (ii) a list of the sales amount of each of the Distributors for each of the three financial years ended December 31, 2015; and
- (f) the Company or MFDPS having entered into a new distribution or business agreement with the Distributors on terms and conditions satisfactory to the Company.

Each party must use its best endeavors to achieve satisfaction of the Conditions as soon as practicable and in any event on or before the Long Stop Date.

If any of the Conditions are not fulfilled on the Completion Date, the Company may (a) defer Completion; (b) proceed to Completion as far as practicable; or (c) terminate the Sale and Purchase Agreement.

Completion

The Completion will take place on the Completion Date after all the Conditions have been fulfilled.

Following the Completion, MFDPS will become a wholly-owned subsidiary of the Company.

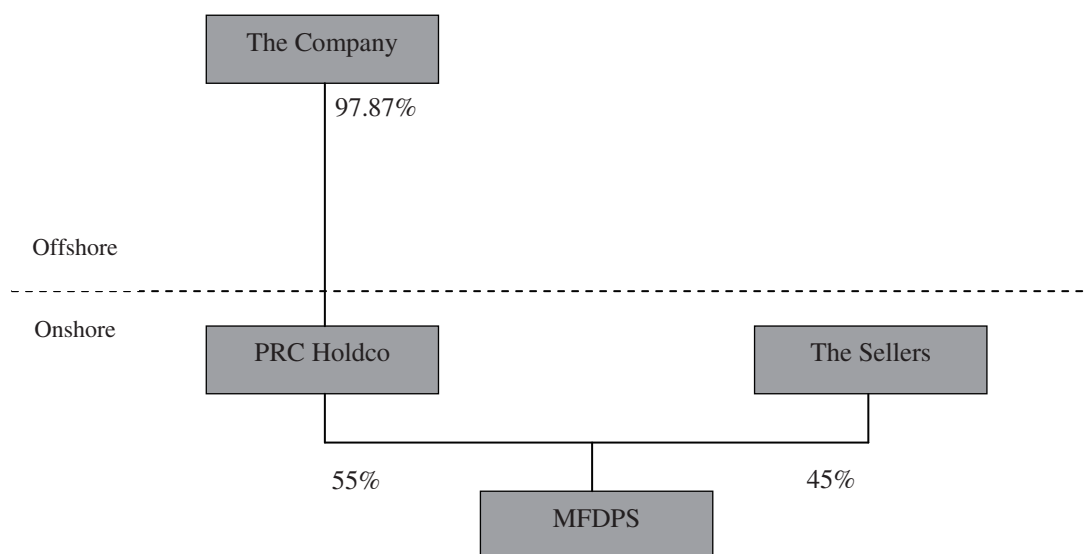
Escrow Arrangement

At Completion, the Company and the Sellers shall jointly appoint the Escrow Agent and the Escrow Shares shall be deposited into the Escrow Account. The Escrow Account shall be jointly-controlled by both the Company and the Sellers and none of the Escrow Shares shall be released from the Escrow Account or dealt with by anyone without the express written consent by the Company. The Company shall instruct the Escrow Agent to release any Escrow Shares held under the Escrow Account on the earlier of the following events:

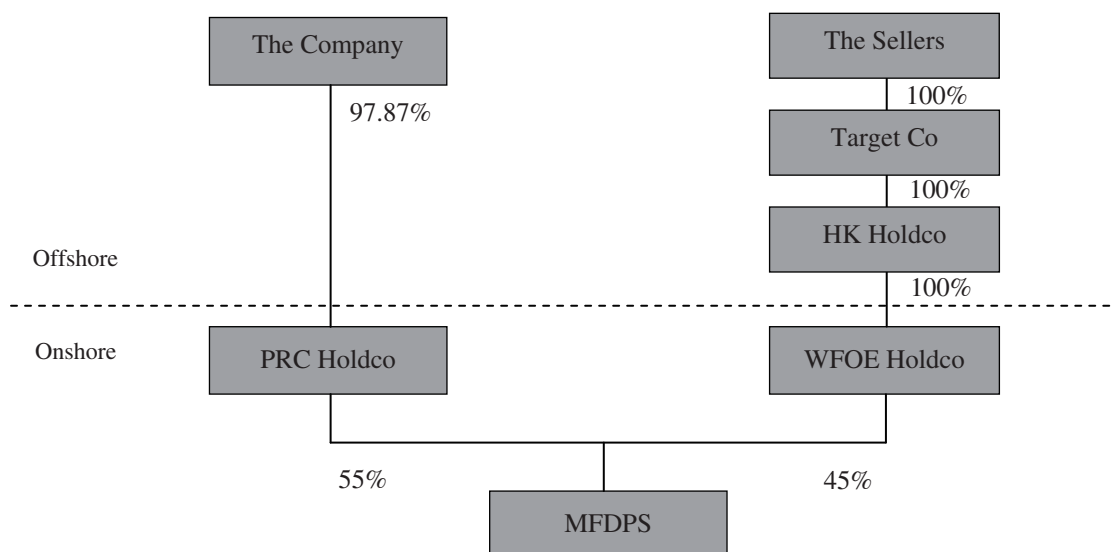
- (i) the Sellers having achieved the Performance Targets; and
- (ii) by mutual agreement between the Company and the Sellers.

Reorganization

The shareholding structure of MFDPS as at the date of this announcement is as follows:



The shareholding structure of MFDPS immediately after the completion of the Reorganization is as follows:



IMPACT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming no other changes to the shareholding structure of the Company other than the issue of the Consideration Shares, the table below illustrated the shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after issue of the Consideration Shares:

Name of Shareholders	As at the date of this announcement		Immediately after the issue of the Consideration Shares	
	<i>Number of Shares</i>	<i>Approximate percentage</i>	<i>Number of Shares</i>	<i>Approximate percentage</i>
The Sellers	—	—	338,602,205	6%
Other Shareholders	<u>5,304,767,883</u>	<u>100%</u>	<u>5,304,767,883</u>	<u>94%</u>
Total	<u><u>5,304,767,883</u></u>	<u><u>100%</u></u>	<u><u>5,643,370,088</u></u>	<u><u>100%</u></u>

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 December 31, 2015, the Group had 27 farms in operation in China with approximately 225,542 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.

INFORMATION OF MFDPS

MFDPS was established under the laws of the PRC on November 28, 2011, and is owned as to 55% and 45% by PRC Holdco (which is in turn held as to 97.87% by the Company) and the Sellers, respectively as at the date of this announcement. Please see the section headed “The Sale and Purchase Agreement — Reorganization” for more details of the shareholding structure of MFDPS as at the date of this announcement.

MFDPS is principally engaged in the business of wholesale and retail of milk products (other than infant formula milk powder) in the PRC.

Financial Information of the Target Group

Set out below is a summary of certain unaudited consolidated financial information of MFDPS for the two years ended December 31, 2014 and December 31, 2015, as extracted from the unaudited consolidated financial statements of MFDPS, prepared in accordance with the generally accepted accounting principles of the PRC:

	For the year ended	
	December 31, 2015	December 31, 2014
Unaudited consolidated net profit (before taxation)	RMB44,246,608.87	RMB25,091,740.34
Unaudited consolidated net profit (after taxation)	RMB32,583,176.26	RMB17,621,470.71

The unaudited consolidated net asset value of MFDPS as prepared on the above basis as at December 31, 2015 was RMB137,407,298.51.

The original acquisition cost for the Target Group by the Sellers was RMB20,250,000.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Acquisition is in line with the Group’s development strategy. MFDPS currently engages in the business of wholesale and retail of milk products (other than infant formula milk powder) in the PRC. The Acquisition enables the Company to enhance the Group’s strategic development and gain better access to the PRC milk products market by developing relationship with customers that have strong market presence.

In addition, the Acquisition will bring operation convenience and benefit to the Group as it will enable the Group to have better and more effective management and control over MFDPS after it becomes a wholly-owned subsidiary of the Group upon

completion of the Acquisition and enable more effective sharing of resources with other subsidiaries of the Group (including the existing network of customers, suppliers and distributors), which the Directors believe will create synergies and improve the Group's subsidiaries' operating efficiencies, strengthen the competitiveness of the Group, increase revenue growth, generate more attractive returns to the Shareholders and reduce costs in the long run.

Based on the aforementioned, the Directors (other than the independent non-executive Directors whose views will be set out in the Circular) consider that the Sale and Purchase Agreement is on normal commercial terms and the terms of the transactions contemplated thereunder (including the Acquisition and the issue of the Consideration Shares pursuant to the Specific Mandate) are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the highest applicable ratio under Rule 14.07 of the Listing Rules of the Acquisition is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, MFDPS is owned as to 55% and 45% by PRC Holdco and the Sellers, respectively. PRC Holdco is in turn held as to 97.87% by the Company. Accordingly, the Sellers are connected persons of the Company and the entering into of the Sale and Purchase Agreement and transactions contemplated thereunder (including the issue of the Consideration Shares pursuant to the Specific Mandate) constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

An EGM will be convened and held by the Company to consider and, if thought fit, approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including issue of the Consideration Shares pursuant to the Specific Mandate). The voting at the EGM will be taken by poll.

An Independent Board Committee comprising all the independent non-executive Directors, namely Prof. LI Shengli, Mr. LEE Kong Wai Conway, Mr. KANG Yan and Mr. ZOU Fei, has been established to advise the Independent Shareholders in relation to the Sale and Purchase Agreement and transactions contemplated thereunder (including the issue of the Consideration Shares pursuant to the Specific Mandate). The Company will in due course appoint an independent financial advisor to advise

the Independent Board Committee and the Independent Shareholders in relation to the Sale and Purchase Agreement and transactions contemplated thereunder (including the issue of the Consideration Shares pursuant to the Specific Mandate).

A Circular containing, among others, the particulars of the Sale and Purchase Agreement together with a letter from the Independent Board Committee, a letter from the independent financial adviser and a notice of the EGM is expected to be despatched to the Shareholders on or about July 8, 2016.

The Acquisition is subject to the fulfillment of a number of conditions precedent which are detailed in the sections headed “The Sale and Purchase Agreement — Conditions Precedent” in this announcement. As the Acquisition may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in Shares.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

“Acquisition”	the sale and purchase of the Sale Shares pursuant to the Sale and Purchase Agreement;
“associate(s)” and “connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Business Day”	any day (excluding a Saturday or Sunday) on which commercial banks are open for business in the PRC or Hong Kong;
“Circular”	the circular to be sent to the Shareholders in relation to the EGM containing, among others, the particulars of the Sale and Purchase Agreement together with a letter from the Independent Board Committee, a letter from the independent financial adviser and a notice of the EGM;
“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 (stock code: 1117);
“Completion”	completion of the sale and purchase of the Sale Shares in accordance with the terms of the Sale and Purchase Agreement;

“Completion Date”	the fifth Business Day from and excluding the day on which the Conditions has been fulfilled, or such other date as the parties may agree in writing;
“Conditions”	the conditions precedent to completion of the transactions contemplated under the Sale and Purchase Agreement, the major terms of which are set out in section headed “The Sale and Purchase Agreement — Conditions Precedent” in this announcement;
“connected person”	has the meaning given that term under the Listing Rules;
“Consideration Shares”	a total of 338,602,205 new Shares to be issued at the issue price of HK\$1.46 per Share to be allotted and issued to the Sellers in consideration for the sale and purchase of the Sale Shares;
“Directors”	the directors of the Company;
“Distributor(s)”	the Primary Distributors and the Secondary Distributors;
“EGM”	an extraordinary general meeting of the Company to be convened and held for the Independent Shareholders to consider and, if thought fit, approve, the Sale and Purchase Agreement and transactions contemplated thereunder (including the issue of the Consideration Shares pursuant to the Specific Mandate);
“Escrow Account”	such securities escrow account to be set up and maintained for the purpose of holding the Escrow Shares;
“Escrow Agent”	such escrow agent to be jointly appointed by the Company and the Sellers at Completion;
“Escrow Shares”	the Consideration Shares to be deposited into the Escrow Account;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“HK Holdco”	an investment holding company to be incorporated under the laws of Hong Kong and to be wholly-owned by Target Co. After the completion of the Reorganization, it shall indirectly own 45% equity interest in MFDPS via its wholly-owned subsidiary, WFOE Holdco;

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors, namely Prof. LI Shengli, Mr. LEE Kong Wai Conway, Mr. KANG Yan and Mr. ZOU Fei, formed for the purpose of advising the Independent Shareholders in relation to the Sale and Purchase Agreement and transactions contemplated thereunder (including the issue of the Consideration Shares pursuant to the Specific Mandate);
“Independent Shareholders”	shareholders of the Company who are not required to abstain from voting at the EGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder (including the issue of the Consideration Shares pursuant to the Specific Mandate);
“Issue Price”	HK\$1.46 per Consideration Share;
“Listing Committee”	The Listing Committee of the Stock Exchange;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“Long Stop Date”	December 13, 2016 or such other date as the Company and the Sellers may agree in writing;
“MFDPS”	Modern Farm (Anhui) Dairy Product Sales Co., Ltd. (現代牧業(安徽)乳品銷售有限公司), a company established under the laws of the PRC;
“Operating Subsidiaries”	The subsidiaries of MFDPS which are engaged in the sales of milk products business;
“Performance Targets”	performance targets for the sellers (as employees of MFDPS) jointly determined by the Company and the Sellers in good faith;
“PRC”	the People’s Republic of China (excluding, for the purpose of this announcement, Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan);
“PRC Holdco”	Modern Farming (Group) Co., Ltd (現代牧業(集團)有限公司), a company established under the laws of the PRC and is owned as the 97.87% by the Company. It is the legal and beneficial owner of 55% equity interest in MFDPS;

“Primary Distributors”	the existing customers, suppliers and distributors of MFDPS and Operating Subsidiaries, whether controlled by the Sellers or not;
“Reorganization”	the reorganization arrangements to be undergone by the Sellers in relation to their respective equity interests in MFDPS. Please see the section headed “The Sale and Purchase Agreement — Reorganization” for more details.;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale and Purchase Agreement”	the sale and purchase agreement dated June 16, 2016 entered into among the Company and the Sellers relating to the Acquisition;
“Sale Shares”	such number of ordinary shares of Target Co representing its entire issued share capital. Target Co shall be the indirect beneficial owner of 45% equity interest in MFDPS at Completion in the shareholding structure set out in the section headed “The Sale and Purchase Agreement — Reorganization” of this announcement;
“Secondary Distributors”	the customers, suppliers and distributors that purchase the products of MFDPS from the Primary Distributors, whether controlled by the Sellers or not;
“Sellers”	Mr. ZUO Weilin, Mr. YANG Jingchao, Mr. GUO Hanqing, Mr. SUN Yongping and Mr. LIU Yanbin, who holds 16.17%, 1.62%, 15.86%, 8.45% and 2.90% (in aggregate 45%) equity interest in MFDPS as at the date of this announcement, respectively. Each Seller is an employee of MFDPS;
“Share(s)”	ordinary share(s) in the share capital of the Company;
“Shareholder(s)”	holder of the Share(s);
“Specific Mandate”	the specific mandate to be granted to the Directors in relation to the allotment and issue of new Shares to satisfy the allotment and issue of the Consideration Shares pursuant to the terms of the Sale and Purchase Agreement, to be approved by the Independent Shareholders at the EGM;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

“Target Co”	an investment holding company to be incorporated under the laws of the British Virgin Islands and to be wholly-owned by the Sellers. After the completion of the Reorganization, it shall indirectly own 45% equity interest in MFDPS via its wholly-owned subsidiaries, namely HK Holdco and WFOE Holdco;
“Target Group”	MFDPS, its subsidiaries (including but not limited to the Operating Subsidiaries) and its associated companies;
“WFOE Holdco”	an investment holding company to be established under the laws of the PRC and to be wholly-owned by HK Holdco. After the completion of the Reorganization, it shall directly own 45% equity interest in MFDPS; and
“%”	per cent.

On behalf of the Board
China Modern Dairy Holdings Ltd.
Ms. GAO LINA
*Deputy Chairman, Chief Executive
Officer and Executive Director*

Hong Kong, June 16, 2016

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 and Mr. ZHANG Ping, the independent non-executive Directors are Prof. LI Shengli, Mr. LEE Kong Wai Conway, Mr. KANG Yan and Mr. ZOU Fei.