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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)

**DISCLOSEABLE TRANSACTION INVOLVING
THE GRANT OF INVESTOR OPTION AND CALL OPTION**

References are made to the announcement of the Company dated July 6, 2015 in relation to the discloseable transaction involving entering into the Share Purchase Agreement by, among others, the Company and the Investor. The Board is pleased to announce that on December 12, 2016, the Company and the Investor entered into the Supplemental Deed to the Share Purchase Agreement, pursuant to which (1) the Company grants to the Investor the Investor Option pursuant to which the Investor shall have the right, but not an obligation, to request the Company to pay the Consideration to terminate the Valuation Adjustment; and (2) the Investor grants to the Company the Call Option pursuant to which the Company shall have the right, but not an obligation, to request the Investor to sell all, but not part of, the Subject Shares to the Company or a purchaser designated by the Company. No premium is payable by the Company for the Call Option.

As the exercise of the Call Option is at the discretion of the Company, according to Rule 14.75(1) of the Listing Rules, on the grant of the Call Option, only the premium will be taken into consideration for the purpose of the transaction classification. No premium is payable for the grant of the Call Option under the Supplemental Deed. However, as one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Investor Option exceed 5% but all the relevant percentage ratios are less than 25%, the transaction contemplated under the Supplemental Deed constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. It is thus subject to the reporting and announcement requirements but is exempt from the requirements of circular and shareholders' approval. The Company will comply with the applicable requirements under Chapter 14 of the Listing Rules as and when the Company exercises the Call Option.

INTRODUCTION

References are made to the announcement of the Company dated July 6, 2015 in relation to the discloseable transaction in relation to the acquisition of 82% of the issued share capital in Asia Dairy Holdings and Asia Dairy Holdings II. On July 6, 2015, the Company, the Investor, Asia Dairy Holdings and Asia Dairy Holdings II entered into the Share Purchase Agreement pursuant to which the Company purchased approximately 82% of the total issued share capital of Asia Dairy I and Asia Dairy II, respectively, and the Company, in consideration, issued the Subject Shares to the Investor. The Share Purchase Agreement also contained a Valuation Adjustment clause in relation to the Subject Shares, under which if the value of the Subject Shares calculated pursuant to the Share Purchase Agreement is less than US\$308 million (the "**Original Guaranteed Value**") on July 21, 2018, the Company shall compensate the Investor for the difference between the Original Guaranteed Value and the actual value. In view of the market volatility and uncertain market conditions, the Investor and the Company have been in negotiations and on December 12, 2016, the parties entered into the Supplemental Deed pursuant to which (1) the Company has granted to the Investor the Investor Option, and (2) the Investor has granted to the Company the Call Option.

MATERIAL TERMS OF THE SUPPLEMENTAL DEED

Date

December 12, 2016

Parties

- (1) Company;
- (2) Investor;
- (3) Asia Dairy Holdings; and
- (4) Asia Dairy Holdings II.

Investor Option

Pursuant to the Supplemental Deed, the Company grants to the Investor the Investor Option pursuant to which the Investor shall have the right, but not an obligation, to request the Company to pay the Consideration to terminate the Valuation Adjustment by delivering to the Company an investor option notice.

Exercise Period

The Investor may exercise the Investor Option by delivering an investor option notice to the Company at any time prior to June 30, 2017. The Investor Option shall lapse and expire if the investor option notice is not delivered to the Company prior to such date.

Consideration

The Consideration comprises the Consideration Shares and the Cash Consideration (if applicable).

Consideration Shares

Upon receipt of the investor option notice, the Company shall issue and allot to the Investor (or its designated nominee) the Consideration Shares, number of which shall be calculated as follows:

$$\text{Number of Shares} = (A - B * C) / B$$

Where:

A = the value to be determined with reference to the date on which the Investor exercises the Investor Option as set forth in the table below:

The date on which the Investor exercises the Investor Option (both dates inclusive)	Value of A (USD)
December 12, 2016 — March 31, 2017	254,800,000
April 1, 2017 — April 30, 2017	268,240,000
May 1, 2017 — May 31, 2017	272,720,000
June 1, 2017 — June 30, 2017	277,200,000

B = the volume weighted average closing price of the Ordinary Shares for a period of thirty (30) trading days immediately preceding the date on which the Company receives the investor option notice; and

C = number of the Subject Shares.

The issue and allotment of the Consideration Shares shall be subject to the following conditions:

- (i) the Stock Exchange having granted the listing of, and permission to deal in, the Consideration Shares, and such grant of listing and permission not subsequently revoked prior to the issue thereof; and
- (ii) in the event that the number of Consideration Shares to be calculated pursuant to the mechanism set out above exceeds the number of Shares the Directors are authorized to issue through Unused Mandate, the Company shall:
 - (a) issue and allot the number of Ordinary Shares which are allowed to be issued through the Unused Mandate to the Investor; and
 - (b) pay Cash Consideration to the Investor, the amount of which is to be calculated as follows:

$$\text{Cash Consideration} = B * D$$

Where:

B = the volume weighted average closing price of the Ordinary Shares for a period of thirty (30) trading days immediately preceding the date on which the Company receives the investor option notice; and

D = number of Consideration Shares to be calculated pursuant to the mechanism set out in paragraph headed “—Consideration Shares” above minus the number of Ordinary Shares to be issued to the Investor through the Unused Mandate.

The Consideration was determined by the parties after arm’s length negotiations after taking into account of the Valuation Adjustment under the Share Purchase Agreement in respect of the Subject Shares. The Consideration is set at a discount to the Original Guaranteed Value. Please refer to the announcement of the Company dated July 6, 2015 for further information on the Valuation Adjustment mechanism under the Share Purchase Agreement.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares if the Investor Option is exercised and the Consideration Shares, when issued upon closing, will rank *pari passu* in all respects with the existing Ordinary Shares in issue.

Completion

Completion of the Investor Option shall take place within six Business Days after the receipt of the investor option notice by the Company.

Anti-dilution arrangement

In the event of any form of capital restructuring of the Company that may take place after the date of the Supplemental Deed, including but not limited to any capitalization of capital reserve, payment of bonus shares, sub-division of shares and reduction of shares, appropriate adjustment shall be made to the Consideration, as may be required, so that the Investor shall receive the same value of consideration to which it was entitled to receive immediately before the occurrence of such capital restructuring.

Call Option

Pursuant to the Supplemental Deed, the Investor has granted the Call Option to the Company, pursuant to which the Company shall have the right, but not an obligation, to request the Investor to sell all, but not part of, the Subject Shares to the Company or a purchaser designated by the Company. If the Company is to purchase the Subject Shares, it shall comply with the applicable laws and regulations, including the Codes on Takeovers and Mergers and Share Buy-backs.

Exercise Period

The Call Option is exercisable at any time by serving a call exercise notice to the Investor during the Call Exercise Period from December 12, 2016 (being the date of the Supplemental Deed) to June 30, 2017 (both dates inclusive). The Call Option shall lapse upon the expiry of the Call Exercise Period.

Exercise Price

The exercise price of the Call Option shall be determined with reference to the Payment Date as follows:

Payment Date (both dates inclusive)	Exercise Price (US\$)	Discount of Exercise Price to Original Guaranteed Value
December 12, 2016 — March 31, 2017	254,800,000	53,200,000 (17%)
April 1, 2017 — April 30, 2017	268,240,000	39,760,000 (13%)
May 1, 2017 — May 31, 2017	272,720,000	35,280,000 (11%)
June 1, 2017 — June 30, 2017	277,200,000	30,800,000 (10%)

The exercise prices were determined by the parties after arm's length negotiations and were offered at a discount to the Original Guaranteed Value, after taking into account of the Valuation Adjustment mechanism under the Share Purchase Agreement in respect of the Subject Shares. Please refer to the announcement of the Company dated July 6, 2015 for further information on the Valuation Adjustment mechanism under the Share Purchase Agreement.

No premium is payable by the Company to the Investor for the grant of the Call Option.

Completion

Completion of the Call Option shall take place on Completion Date. The Share Purchase Agreement shall terminate immediately on Completion Date.

INFORMATION ON 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, 2016, the Group had 27 farms in operation in China with approximately 220,493 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.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUPPLEMENTAL DEED

In view of the market volatility and uncertain market conditions, the parties agreed to enter into the Supplemental Deed to adjust the arrangements under the Share Purchase Agreement. The Investor Option and the Call Option would enable the Group to terminate its obligations under the Valuation Adjustment mechanism at a discounted price to the Original Guaranteed Value.

The Board (including the independent non-executive Directors) considers the terms of the Supplemental Deed to be on normal commercial terms, are fair and reasonable and in the interests of the Company and its shareholders as a whole.

INFORMATION ON THE INVESTOR

The Investor is a joint venture entity ultimately held by New Dairy Investment and Crown Dairy Holdings.

Mr. Wolhardt Julian Juul, a non-executive Director, is a member of KKR Asia Limited, which is an affiliate of KKR China Growth Fund L.P., which wholly-owns New Dairy Investment. Further, Mr. Hui Chi Kin Max, a non-executive Director, is a managing director of CDH China Management Company Limited, the manager of CDH Fund IV, L.P., which wholly-owns Crown Dairy Holdings.

Both Mr. Wolhardt and Mr. Hui have abstained from voting on the resolutions of the Board for approving the Supplemental Deed. Save as disclosed above, the Directors confirm that to the best of their knowledge, information and belief, having made all reasonable enquiries, New Dairy Investment and Crown Dairy Holdings and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

LISTING RULES IMPLICATIONS

As the exercise of the Call Option is at the discretion of the Company, according to Rule 14.75(1) of the Listing Rules, on the grant of the Call Option, only the premium will be taken into consideration for the purpose of the transaction classification. No premium is payable for the grant of the Call Option under the Supplemental Deed. However, as one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Investor Option exceed 5% but all the relevant percentage ratios are less than 25%, the transaction contemplated under the Supplemental Deed constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. It is thus subject to the reporting and announcement requirements but is exempt from the requirements of circular and shareholders' approval. The Company will comply with the applicable requirements under Chapter 14 of the Listing Rules as and when the Company exercises the Call Option.

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this announcement:

“Board”	the board of Directors;
“Business Day”	any day other than a Saturday, Sunday or other day on which commercial banks in the PRC or Hong Kong are required or authorized by law to be closed;
“Call Option”	the call option granted by the Investor to the Company in relation to the Subject Shares;
“Cash Consideration”	cash consideration to be paid to the Investor (if applicable) by the Company in immediately available funds pursuant to the Supplemental Deed;

“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 Date”	the second Business Day after the Payment Date;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“Consideration”	the Consideration Shares and the Cash Consideration (if applicable);
“Consideration Shares”	the consideration shares to be issued and allotted to the Investor in relation to the Investor Option under the Supplemental Deed;
“Crown Dairy Holdings”	Crown Dairy Holdings Limited, 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;
“Director(s)”	the director(s) of the Company;
“Call Exercise Period”	the period commencing from December 12 to June 30, 2017, both dates inclusive;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Investor”	Success Dairy II Limited, a company incorporated in Cayman Islands with limited liability;
“Investor Option”	the option granted by the Company to the Investor pursuant to which the Investor shall have the right, but not an obligation, to request the Company to pay the Consideration to the Investor to terminate the Valuation Adjustment;

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“New Dairy Investment”	New Dairy Investment Ltd, 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;
“Ordinary Shares”	ordinary shares of a par value of HK\$0.10 each in the Company;
“Payment Date”	any date on or before the fifth Business Day after the date of the call exercise notice;
“PRC” or “China”	the People’s Republic of China which, for the purpose of this announcement only, excludes Hong Kong, The Macau Special Administrative Region of the PRC and Taiwan;
“Share Purchase Agreement”	the share purchase agreement dated July 6, 2015 entered into among the Company, the Investor, Asia Dairy Holdings and Asia Dairy Holdings II, details of which was disclosed in the announcement of the Company dated July 6, 2015;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subject Shares”	477,429,132 Ordinary Shares issued to the Investor pursuant to the Share Purchase Agreement, representing 9.89% of the total issued and outstanding share capital of the Company as of the date of the Share Purchase Agreement;
“Supplemental Deed”	a supplemental deed dated December 12, 2016 to the Share Purchase Agreement, entered into among the Investor, the Company, Asia Dairy Holdings and Asia Dairy Holdings II in relation to Investor Option and the Call Option;

“US\$”	United States dollars, the lawful currency of the United States of America;
“Unused Mandate”	the number of Shares the Directors are authorized to issue through unused general mandate approved by the shareholders of the Company; and
“Valuation Adjustment”	the valuation adjustment mechanism set out in the Share Purchase Agreement in respect of the Subject Shares.

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

Hong Kong, December 12, 2016

As of the date of this announcement, the executive directors of the Company are Ms. GAO Lina and Mr. HAN Chunlin, the non-executive directors of the Company are Mr. YU Xubo, Mr. WOLHARDT Julian Juul, Mr. HUI Chi Kin Max, Mr. ZHANG Ping and Mr. SUN Yugang, the independent non-executive directors of the Company are Mr. LI Shengli, Mr. LEE Kong Wai Conway, Mr. KANG Yan and Mr. ZOU Fei.