



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)

Executive Directors:

Ms. GAO Lina (*Deputy Chairman and
Chief Executive Officer*)
Mr. HAN Chunlin (*Chief Operation Officer*)

Registered office:

Maples Corporate Services Limited
PO Box 309, Umland House
Grand Cayman, KY1-1104
Cayman Islands

Non-Executive Directors:

Mr. YU Xubo (*Chairman*)
Mr. WOLHARDT Julian Juul
Mr. HUI Chi Kin, Max
Mr. ZHANG Ping
Mr. SUN Yugang

Principal place of business in Hong Kong:

Unit 2402, 24th Floor, Alliance Building
130-136 Connaught Road Central
Sheung Wan
Hong Kong

Independent Non-Executive Directors:

Mr. LI Shengli
Mr. LEE Kong Wai Conway
Mr. KANG Yan
Mr. ZOU Fei

14 February 2017

To the CMD Shareholders and the Optionholders

Dear Sir/Madam,

**CONDITIONAL MANDATORY CASH OFFERS BY UBS AG AND
DBS ASIA CAPITAL LIMITED FOR AND ON BEHALF OF
CHINA MENGNIU DAIRY COMPANY LIMITED TO ACQUIRE ALL
THE ISSUED SHARES IN CHINA MODERN DAIRY HOLDINGS LTD.
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE
ACQUIRED BY CHINA MENGNIU DAIRY COMPANY LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)
AND
FOR CANCELLATION OF ALL OUTSTANDING OPTIONS IN
CHINA MODERN DAIRY HOLDINGS LTD.**

INTRODUCTION

Reference is made to the Joint Announcement. On 4 January 2017, Mengniu entered into the SPA with Success Dairy II, pursuant to which Mengniu has conditionally agreed to acquire

* For identification purpose only

and Success Dairy II has conditionally agreed to sell 965,465,750 CMD Shares (being the Subject Shares) for a consideration of HK\$1,873,003,555, payable in U.S. dollars, which is equivalent to US\$241,475,350, as determined by the Exchange Rate. The consideration represents HK\$1.94 per CMD Share, which is equivalent to US\$0.25 per CMD Share, as determined by the Exchange Rate, assuming the Investor Option is exercised.

As at the date of the Joint Announcement, Success Dairy II held the Existing CMD Shares and the Investor Option. An irrevocable notice to exercise the Investor Option was served on CMD by Success Dairy II on 28 December 2016, which is conditional upon, among other things, Mengniu Shareholders having approved the Transaction. Upon exercise of the Investor Option and as clarified by CMD's announcement dated 21 December 2016, CMD shall issue 488,036,618 CMD Shares to Success Dairy II.

Mengniu Shareholders approved the Transaction by way of ordinary resolution at the EGM. On 6 February 2017, CMD issued the 488,036,618 New CMD Shares to Success Dairy II pursuant to the terms of the Investor Option. Upon such issuance, Success Dairy II owned 965,465,750 CMD Shares, representing 15.7% of the total issued share capital of CMD on a fully diluted basis. In addition, the listing approval of the New CMD Shares has been granted by the Stock Exchange on 23 December 2016, and has not been withdrawn as at the Latest Practicable Date.

SPA Completion took place on 7 February 2017 whereby the Subject Shares were transferred from Success Dairy II to Mengniu SPV, a nominee of Mengniu.

Immediately following the SPA Completion but before the commencement of the Offers, Mengniu and its Concert Parties beneficially owned an aggregate of 2,313,368,750 CMD Shares, representing approximately 37.7% of the issued share capital of CMD as at the Latest Practicable Date. Accordingly, upon the SPA Completion, Mengniu is required to make (i) a conditional mandatory cash offer for all the issued CMD Shares not already owned or agreed to be acquired by Mengniu and its Concert Parties pursuant to Rule 26.1 of the Takeovers Code, and (ii) an appropriate offer to the Optionholders for the cancellation of the outstanding CMD Options pursuant to Rule 13 of the Takeovers Code.

The purpose of the Composite Document of which this letter forms part is to provide you with, among other matters, the terms of the Offers, information relating to the CMD Group and Mengniu, as well as to set out (i) the letter from the Independent Board Committee containing its recommendations to the CMD Shareholders and the Optionholders in respect of the Offers; and (ii) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in respect of the Offers.

Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context otherwise requires.

THE OFFERS

The “Letter from UBS and DBS” as set out on pages 9 to 26 of the Composite Document contains the information in respect of the Offers and the principal terms of the Offers are extracted below. You are recommended to refer to the “Letter from UBS and DBS”, Appendix I to the Composite Document and the accompanying White Form of Share Offer Acceptance and Pink Form of Option Offer Acceptance for further details.

UBS as the financial adviser and DBS as the joint financial adviser are making the Offers for and on behalf of Mengniu to all the CMD Shareholders for all the issued CMD Shares (other than those already owned or agreed to be acquired by Mengniu and its Concert Parties) and to the Optionholders for the cancellation of all outstanding CMD Options in compliance with Rules 26.1 and 13 of the Takeovers Code respectively, on the following basis:

The Share Offer

For each Offer Share HK\$1.94 or US\$0.25 in cash

The Offer Price of HK\$1.94 or US\$0.25 per each Offer Share under the Share Offer is equivalent to the consideration per CMD Share of HK\$1.94 or US\$0.25 pursuant to the SPA, assuming the Investor Option is exercised and as determined using the Exchange Rate.

The Option Offer

For each CMD Option with exercise
price below the Offer Price HK\$1.94 or US\$0.25 less
the exercise price in respect of
the relevant CMD Option in cash

For each CMD Option with exercise
price above the Offer Price HK\$0.0001 or US\$0.00013 in cash

The Option Offer will be extended to all eligible Optionholders in accordance with the Takeovers Code.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee, comprising Mr. SUN Yugang, a non-executive CMD Director, and all the independent non-executive CMD Directors, namely, Mr. LI Shengli, Mr. LEE Kong Wai Conway, Mr. KANG Yan and Mr. ZOU Fei, was formed to advise the CMD Shareholders and the Optionholders in relation to the terms and conditions of the Offers.

Mr. YU Xubo, Mr. WOLHARDT Julian Juul, Mr. HUI Chi Kin Max and Mr. ZHANG, Ping, all of which are non-executive CMD Directors, do not form part of the Independent Board Committee due to their respective interest in the Offers as follows:

- (i) Mr. YU Xubo is currently the president of COFCO Corporation, the controlling shareholder of Mengniu;
- (ii) Mr. WOLHARDT Julian Juul is currently a director of Success Dairy II and he has been a member of KKR Asia Limited, an affiliate of KKR China Growth Fund L.P., a subsidiary of which is New Dairy Investment Ltd, one of the ultimate shareholders of Success Dairy II, until December 31, 2016, and that since January 1, 2017 he has been an advisor of KKR Asia Limited;
- (iii) Mr. HUI Chi Kin Max is currently a managing director of CDH China Management Company Limited, the manager of CDH Fund IV, L.P., which wholly-owns Crown Dairy Holdings Limited, one of the ultimate shareholders of Success Dairy II; and
- (iv) Mr. ZHANG Ping is a member of the senior management of Mengniu.

Somerley Capital has, with the approval of the Independent Board Committee, been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Offers and in particular as to whether the terms of the Offers are fair and reasonable and as to acceptance pursuant to Rule 2.1 of the Code.

The full texts of the letter from the Independent Board Committee addressed to the CMD Shareholders and the Optionholders and the letter from the Independent Financial Adviser addressed to the Independent Board Committee are set out on pages 36 to 37 and pages 38 to 64 respectively in the Composite Document. You are advised to read both letters and the additional information contained in the appendices to the Composite Document carefully before taking any action in respect of the Offers.

FURTHER DETAILS OF THE OFFERS

You are advised to refer to the “Letter from the Independent Financial Adviser” as set out on pages 38 to 64 of the Composite Document, Appendix I of the Composite Document, White Form of Share Offer Acceptance and Pink Form of Option Offer Acceptance for further terms and conditions of the Offers and the procedures for acceptance and settlement of the Offers.

INFORMATION OF CMD

CMD is a company incorporated in the Cayman Islands with limited liability, and CMD Shares have been listed on the Main Board of the Stock Exchange since 2010 (Stock Code: 1117). CMD 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 at 30 June 2016, CMD Group had 27 farms in operation in China with approximately 220,493 dairy cows in total. CMD 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.

The table below sets forth a summary of certain consolidated financial information of CMD

Group for the years ended 31 December 2014 and 31 December 2015 extracted from the 2015 annual report of CMD Group and for the six months ended 30 June 2016 extracted from the 2016 interim report of CMD Group:

	FY2014 (Audited) (RMB'000)	FY2015 (Audited) (RMB'000)	1HFY2016 (Unaudited) (RMB'000)
Revenue	5,026,706	4,826,341	2,229,110
Profits (Loss) before taxation	770,364	355,381	(589,673)
Profits (Loss) for the year/period attributable to owners of CMD	735,317	321,296	(565,668)
Net assets	6,655,952	7,950,032	7,348,023

Your attention is drawn to the financial information of CMD Group and the general information of CMD Group as set out in Appendices II and IV to the Composite Document, respectively.

PROFIT WARNING ANNOUNCEMENT AND PROFIT FORECAST

Reference is made to the Profit Warning Announcement whereby, among others, it was announced that based on the assessment of the unaudited consolidated management accounts of the CMD Group for the year ended 31 December 2016, it is expected that the CMD Group will record a consolidated net loss attributable to the equity holders of CMD of not less than RMB600 million (unaudited consolidated net loss attributable to the equity holders of CMD for the six months ended 30 June 2016: approximately RMB566 million) for the year ended 31 December 2016 (the “**Profit Warning**”), which is mainly attributable to:

- (i) due to the impact of and effect from the import of milk powder in large packs and concentrated milk, the raw milk market condition became harsh and there were difficulties in the sale of raw milk in the first half of 2016, as a result of which part of the raw milk production of the CMD Group was sprayed into dried milk powder, and the selling of all milk powder in stock at market price resulted in losses;
- (ii) the increased expenditure on marketing and sales to respond to the fierce competition in the branded product market and to increase the market share in the branded product market; and

- (iii) a non-cash loss on changes in the fair value less costs to sell of dairy cows of the CMD Group in the year ended 31 December 2016, which is expected to be significantly greater as compared to 2015. This is mainly due to the decline in the raw milk selling price in China in 2016 and the control of the CMD Group on the number of dairy cows in response to the difficulties in the sale of raw milk.

As disclosed in the Profit Warning Announcement, following the publication of the Joint Announcement, pursuant to Rule 10 of the Takeovers Code, the Profit Warning constitutes a profit forecast and must be reported on by CMD's financial advisers and its auditors or accountants. The Profit Warning has been reported on by Deloitte Touche Tohmatsu, the auditors of CMD, and Somerley Capital, the Independent Financial Adviser. Deloitte Touche Tohmatsu has reported that, so far as the accounting policies and calculations are concerned, the Profit Warning has been properly compiled in accordance with the bases adopted by the CMD Board as set out in the Profit Warning Announcement and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the CMD Group and used in the preparation of the audited consolidated financial statements of the CMD Group for the year ended 31 December 2015. Somerley Capital is satisfied that the Profit Warning has been made by the CMD Board with due care and consideration. Your attention is drawn to the reports issued by Deloitte Touche Tohmatsu and Somerley Capital on the statement in the Profit Warning Announcement set out in Appendix III to this Composite Document respectively.

SHAREHOLDING STRUCTURE OF CMD

The shareholding structure of CMD:

- (i) as at the date of the Joint Announcement;
- (ii) immediately following SPA Completion but before the commencement of the Offers, assuming no CMD Options are exercised; and
- (iii) immediately following completion of the Offers, assuming none of the outstanding CMD Options is exercised and all CMD Shares are tendered for acceptance by CMD Shareholders under the Share Offer (other than the Non-Accepting Shareholders)

are as follows:

	As at the date of the Joint Announcement		Immediately following SPA Completion but before commencement of the Offers, assuming no CMD Options are exercised		Immediately following the completion of the Offers, assuming none of the outstanding CMD Options is exercised and all CMD Shares are tendered for acceptance by CMD Shareholders under the Share Offer (other than the Non-Accepting Shareholders) (Note 2)	
	Number of Shares	Approximate %	Number of Shares	Approximate %	Number of Shares	Approximate %
Substantial Shareholders						
Mengniu and its Concert Parties	1,347,903,000	25.4%	2,313,368,750	37.7%	5,566,422,768	90.8%
Success Dairy II	477,429,132	9.0%	0	0.0%	0	0.0%
Xinmu Holdings Co. Ltd	671,021,025	12.6%	671,021,025	10.9%	0	0.0%
Yinmu Holdings Co. Ltd	446,465,419	8.4%	446,465,419	7.3%	0	0.0%
Jinmu Holdings Co. Ltd	221,581,733	4.2%	221,581,733	3.6%	221,581,733	3.6%
	<i>(Notes 1 & 3)</i>					
Directors and Chief Executive						
GAO, Lina	4,800,000	0.1%	4,800,000	0.1%	4,800,000	0.1%
	<i>(Notes 1 & 3)</i>					
Other Public Shareholders	2,135,567,574	40.3%	2,474,169,779	40.4%	338,602,205	5.5%
Total	5,304,767,883	100.0%	6,131,406,706	100.0%	6,131,406,706	100.0%
			<i>(Note 2)</i>		<i>(Notes 2 & 3)</i>	

Notes:

- Ms. GAO Lina is the legal and beneficial owner of 4,800,000 CMD Shares. In addition, Ms. GAO Lina holds approximately 49.12% of the interests in Jinmu.
- On 25 January 2017 (which is a date prior to the issuance of New CMD Shares to Success Dairy II pursuant to the exercise of the Investor Option), 338,602,205 new CMD Shares were issued to the wholly-owned entities of the Individuals by CMD pursuant to the terms of the June 16 SPA, thus enlarging the total issued share capital of CMD by 338,602,205 CMD Shares. The entirety of 338,602,205 CMD Shares will be subject to the Lock-up and thus will not be or are not in a position to be tendered for acceptance under the Share Offer. For further details, please refer to the section headed "Non-Accepting Shareholders" as set out in the "Letter from UBS and DBS".
- Ms. Lina Gao, Jinmu and the Individuals referred to in Note 2 above are the Non-Accepting Shareholders. The number of CMD Shares held by each of the Non-Accepting Shareholders and the details of non-acceptance are set out in the section headed "Non-Accepting Shareholders" as set out in the "Letter from UBS and DBS".

INFORMATION ON MENGNIU AND MENGNIU'S INTENTION FOR CMD GROUP

Your attention is drawn to the "Letter from UBS and DBS" and the general information of Mengniu as set out in Appendix V to the Composite Document, respectively for information relating to Mengniu.

The CMD Board is pleased that Mengniu intends that CMD Shares will remain listed on the Stock Exchange immediately after the completion of the Offers and to continue with the existing principal business of CMD Group following the close of the Offers. The CMD Board is also pleased that, other than the proposed changes to the CMD Board as mentioned below, Mengniu has no intention to make material changes to the management of the CMD Group or to terminate the employment of any employee or other personnel of the CMD Group.

PROPOSED CHANGE OF BOARD COMPOSITION

Your attention is drawn to the section headed "Proposed change of board composition of CMD" in the "Letter from UBS and DBS" as set out on pages 24 to 25 of the Composite Document.

MAINTAINING THE LISTING STATUS OF CMD

Your attention is drawn to the section headed "Mengniu's Intention on the CMD Group" in the "Letter from UBS and DBS" as set out on pages 24 to 25 of the Composite Document which sets out the intentions of Mengniu regarding CMD Group. According to the "Letter from UBS and DBS", Mengniu intends to maintain the listing of the CMD Shares on the Main Board of the Stock Exchange after completion of the Offers, and assuming the Offers become or are declared unconditional, Mengniu Directors have jointly and severally undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the CMD Shares, and the new directors to be appointed to the CMD Board will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the CMD Shares.

The Stock Exchange has stated that if, at the close of the Offers, less than the minimum prescribed percentage applicable to CMD, being 25% of the issued CMD Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the CMD Shares; or (ii) there are insufficient CMD Shares in public hands to maintain an orderly market; it will consider exercising its discretion to suspend dealings in the CMD Shares.

RECOMMENDATION

Your attention is drawn to (i) the "Letter from the Independent Board Committee" as set out on pages 36 to 37 of the Composite Document, which sets out its recommendations to the CMD Shareholders and the Optionholders in relation to the Offers; and (ii) the "Letter from the Independent Financial Adviser" as set out on pages 38 to 64 of the Composite Document, which sets out its advice to the Independent Board Committee in relation to the Offers and the principal factors considered by it in arriving at its advice.

ADDITIONAL INFORMATION

Your attention is drawn to the “Letter from UBS and DBS”, the “Letter from the Independent Board Committee” and the “Letter from the Independent Financial Adviser” as set out in the Composite Document, the accompanying White Form of Share Offer Acceptance and Pink Form of Option Offer Acceptance and the additional information as set out in the appendices to, which form part of, the Composite Document.

Yours faithfully,
By order of the board of
China Modern Dairy Holdings Ltd.



Ms. GAO Lina

Deputy Chairman, Chief Executive Officer and Executive Director