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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)

**CONTINUING CONNECTED TRANSACTIONS
FRAMEWORK SUPPLY AGREEMENT WITH FUYUAN AND
FRAMEWORK SUPPLY AND PROCESSING AGREEMENT WITH
INNER MONGOLIA MENGNIU**

The Board announces that on June 16, 2017, Modern Farm, a non-wholly owned subsidiary of the Company, entered into (i) the Framework Supply Agreement with Fuyuan, a connected person, in relation to the supply of Feedstuffs to the Modern Farm Group, and (ii) the Framework Supply and Processing Agreement with Inner Mongolia Mengniu, a connected person, in relation to the supply of milk products and the provision of the Services to the Inner Mongolia Mengniu Group.

As at the date of this announcement, Fuyuan is a company which is indirectly owned as to 42.3% by Mengniu, Inner Mongolia Mengniu is a company which is owned as to 99.98% by Mengniu, and Mengniu is a substantial shareholder holding approximately 61.25% interest in the issued share capital of the Company. Each of Fuyuan and Inner Mongolia Mengniu is therefore an associate of Mengniu and a connected person of the Company under Chapter 14A of the Listing Rules.

The Fuyuan Continuing Connected Transactions and Mengniu Continuing Connected Transactions are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

A circular containing, among other information, (a) further details of the Fuyuan Continuing Connected Transactions and Mengniu Continuing Connected Transactions, the Agreements and the Proposed Annual Caps; (b) a letter from the IFA containing its advices on the same; (c) recommendations of the Independent Board Committee to the Independent Shareholders on the same; and (d) a notice to convene the EGM to approve, among other things, the entering into of each of the Agreements and the Proposed Annual Caps will be issued to the Shareholders on or before July 7, 2017.

I. INTRODUCTION

The Board announces that on June 16, 2017, Modern Farm, a non-wholly owned subsidiary of the Company, entered into (i) the Framework Supply Agreement with Fuyuan, a connected person, in relation to the supply of Feedstuffs to the Modern Farm Group, and (ii) the Framework Supply and Processing Agreement with Inner Mongolia Mengniu, a connected person, in relation to the supply of milk products and the provision of the Services to the Inner Mongolia Mengniu Group.

II. DETAILS OF THE CONTINUING CONNECTED TRANSACTIONS

A. Framework Supply Agreement

The Framework Supply Agreement is legally binding and its principal terms are described below:

- Date** : June 16, 2017.
- Parties** : (i) Modern Farm as the buyer; and (ii) Fuyuan as the seller.
- Duration** : For a term commencing from the effective date of the Framework Supply Agreement to December 31, 2019.
- Principal Terms** : Pursuant to the Framework Supply Agreement, (i) the Modern Farm Group agrees to purchase the Feedstuffs that meet the quality requirements of the Modern Farm Group which are delivered to the relevant farms of the Modern Farm Group, and (ii) the Fuyuan Group agrees to sell and deliver the Feedstuffs, which meet the quality requirements of Modern Farm, to the respective farms of the Modern Farm Group.

Price and payment terms : The price payable and other payment terms by the Modern Farm Group to the Fuyuan Group shall be determined by reference to the lowest quoted price and other payment terms at which the Modern Farm Group could obtain the same type of Feedstuffs from independent third party (whether local or overseas); for this purpose, the Modern Farm Group will seek quotations from at least two independent parties offering the same type of Feedstuffs each time.

Effective Date : The Framework Supply Agreement is effective on the date that all of the conditions, including, amongst others, the passing of the resolutions to approve the Fuyuan Continuing Connected Transactions by the Independent Shareholders at the EGM, have been fulfilled.

B. Framework Supply and Processing Agreement

The Framework Supply and Processing Agreement is legally binding and its principal terms are described below:

Date : June 16, 2017.

Parties : (i) Inner Mongolia Mengniu; and
(ii) Modern Farm.

Duration : For a term commencing from the effective date of the Framework Supply and Processing Agreement to December 31, 2019.

Principal Terms : Pursuant to the Framework Supply and Processing Agreement:

(i) (a) the Inner Mongolia Mengniu Group agrees to purchase the milk products (including pure milk, yogurt and pasteurized milk) that meet the quality requirements of the Inner Mongolia Mengniu Group from the Modern Farm Group; and (b) the Modern Farm Group agrees to sell and deliver the milk products (including pure milk, yogurt and pasteurized milk), which meet the quality requirements of the Inner Mongolia Mengniu Group, to the Inner Mongolia Mengniu Group; and

(ii) (a) the Inner Mongolia Mengniu Group agrees to provide raw materials to the Modern Farm Group and engage the Modern Farm Group to process such raw materials and convert them into dairy products (including pasteurized milk and yogurt) that meet the quality requirements of the Inner Mongolia Mengniu Group (the “Services”); and (b) the Modern Farm Group agrees to provide the Services.

Price and payment terms : The price payable by the Inner Mongolia Mengniu Group to the Modern Farm Group for the supply of milk products should be determined on the “cost-plus 3%” basis. The price payable by the Inner Mongolia Mengniu Group to the Modern Farm Group for the provision of the Services should be about the same as the price payable by the other parties, for whom the Modern Farm Group processes raw materials according to the same standard and convert such raw materials into dairy products with the same quality, to the Modern Farm Group.

Effective Date : The Framework Supply and Processing Agreement is effective on the date that all of the conditions, including, amongst others, the passing of the resolutions to approve the Mengniu Continuing Connected Transactions by the Independent Shareholders at the EGM, have been fulfilled.

III. PROPOSED ANNUAL CAPS AND BASIS OF DETERMINATION

The Proposed Annual Caps for the Fuyuan Continuing Connected Transactions for each of the periods commencing from the effective date of the Framework Supply Agreement to December 31, 2017, from January 1, 2018 to December 31, 2018 and from January 1, 2019 to December 31, 2019 were RMB180,000,000, RMB320,000,000 and RMB360,000,000, respectively.

The amounts of the Proposed Annual Caps for the Fuyuan Continuing Connected Transactions are determined by reference to (i) historical value of transactions between the Modern Farm Group and other suppliers in relation to the Feedstuffs, (ii) average market prices of the Feedstuffs and (iii) anticipated growth of the Modern Farm Group’s demands for the Feedstuffs taking into account of life cycle of production and sales.

The Proposed Annual Caps for the supply of milk products under the Mengniu Continuing Connected Transactions for each of the periods commencing from the effective date of the Framework Supply and Processing Agreement to December 31, 2017, from January 1, 2018 to December 31, 2018 and from January 1, 2019 to December 31, 2019 were RMB1,060,750,000, RMB1,899,000,000 and RMB2,222,690,000, respectively.

The amounts of the Proposed Annual Caps for the supply of milk products under the Mengniu Continuing Connected Transactions are determined by reference to (i) the historical average production cost for similar products produced by Modern Farm and other manufacturers of milk products; (ii) in broad terms, the comparison with the profit level of the independent trading range of manufacturing enterprises (i.e. mark-up on the total costs); and (iii) anticipated growth of the market demands for the milk products.

The Proposed Annual Caps for the provision of the Services under the Mengniu Continuing Connected Transactions for each of the periods commencing from the effective date of the Framework Supply and Processing Agreement to December 31, 2017, from January 1, 2018 to December 31, 2018 and from January 1, 2019 to December 31, 2019 were RMB52,270,000, RMB138,950,000 and RMB162,640,000, respectively.

The amounts of the Proposed Annual Caps for the provision of the Services under the Mengniu Continuing Connected Transactions are determined by reference to (i) average market prices for providing similar Services; and (ii) anticipated growth of the market demands for the Services.

IV. REASONS FOR ENTERING INTO THE AGREEMENTS

The Company needs a large amount of high quality Feedstuffs, which act as a key source of nutrition for the dairy cows and directly affect the quality of milk and the yield of milk production. By entering into the Framework Supply Agreement, the Group will be able to secure stable and high quality Feedstuffs from Fuyuan. In addition, the price of the Feedstuffs provided by Fuyuan will take reference to the lowest quoted price received by the Modern Farm Group from other third party suppliers (whether local or overseas) for Feedstuffs that meet the same quality requirements, which makes it more cost effective than the same type of Feedstuffs with similar quality provided by other suppliers. The Directors therefore consider that, by procuring Feedstuffs from Fuyuan, the Group will be able to alleviate its production cost.

The entry into of the Framework Supply and Processing Agreement with Inner Mongolia Mengniu could enhance brand awareness of the Company's products and enlarge its market share by leveraging Mengniu's established distribution channel, and result in greater economic benefit. Through utilizing each other's factory capacity and resources with Mengniu, idle resources could be minimized, the overall capacity utilization will be improved and the production cost will be lowered, and synergy effect is expected to be maximised.

The Directors (other than the independent non-executive Directors, whose views and opinions will be included in the circular to be despatched to the Shareholders), believe that the terms of each of the Agreements are on normal commercial terms, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

V. INFORMATION ON THE PARTIES

A. The Group

The Group is the largest dairy farming company and the largest producer of raw milk in China in terms of herd size and quantity. As of December 31, 2016, the Group operated a total of 26 livestock farms in China with 229,200 dairy cows in total. As a nationwide farm, the Group is endowed with unique geographical advantages, and its farms are close to various downstream processing plants for dairy products and supply sources of feed. The Group adheres to its own "innovation gene" and persists in its unique production mode of "integration of planting, breeding and processing" and "zero-distance 2 hours" to produce the distinctive quality-assured milk.

B. Modern Farm

Modern Farm is an indirect non-wholly owned subsidiary of the Company and is an investment holding company of its subsidiaries which are principally engaged in operating dairy farms and production and sale of raw milk in the PRC. As at the date of this announcement, the Company indirectly owns approximately 97.87% of the equity interests in Modern Farm.

C. Fuyuan

Fuyuan was established in the PRC in February 2012 and is principally engaged in planting of forage grass, dairy farming, breeding and livestock research and training. As at the date of this announcement, Mengniu indirectly owns 42.3% of the equity interests in Fuyuan.

D. Inner Mongolia Mengniu

Inner Mongolia Mengniu was established in the PRC and is principally engaged in the manufacture and sale of dairy products. As at the date of this announcement, Mengniu owns 99.98% of the equity interests in Inner Mongolia Mengniu.

VI. IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Fuyuan is a company which is indirectly owned as to 42.3% by Mengniu, Inner Mongolia Mengniu is a company which is owned as to 99.98% by Mengniu, and Mengniu is a substantial shareholder holding approximately 61.25% interest in the issued share capital of the Company. Each of Fuyuan and Inner Mongolia Mengniu is therefore an associate of Mengniu and a connected person of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable Percentage Ratios in respect of each of the Fuyuan Continuing Connected Transactions and Mengniu Continuing Connected Transactions exceed 5%, the Fuyuan Continuing Connected Transactions and Mengniu Continuing Connected Transactions will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules, and be subject to the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

The Directors (excluding the independent non-executive Directors whose views will be given after taking into account the advice from the IFA) consider that each of the Agreements is entered into in the usual and ordinary course of business of the Group, is negotiated on an arm's length basis and on normal commercial terms or on terms no less favorable than those available to or from independent third parties under prevailing local market conditions, and the terms of the Fuyuan Continuing Connected Transactions and Mengniu Continuing Connected Transactions are fair and reasonable and in the interests of the Group and the Shareholders as a whole.]

VII. EGM AND CIRCULAR

The Fuyuan Continuing Connected Transactions and Mengniu Continuing Connected Transactions, the Agreements and the Proposed Annual Caps will be subject to approval by the Independent Shareholders at the EGM by way of poll where Mengniu and its associates will abstain from voting.

A circular containing, among other information, (a) further details of the Fuyuan Continuing Connected Transactions and Mengniu Continuing Connected Transactions, the Agreement and the Proposed Annual Caps; (b) a letter from the IFA containing its advices on the same; (c) recommendations of the Independent Board Committee to the Independent Shareholders on the same; and (d) a notice to convene the EGM to approve, among other things, the entering into of each of the Agreements and the Proposed Annual Caps will be issued to the Shareholders on or before July 7, 2017.

An Independent Board Committee has been established to advise the Independent Shareholders in relation to the Fuyuan Continuing Connected Transactions and Mengniu Continuing Connected Transactions, the Agreements and the Proposed Annual Caps.

Each of the members of the Independent Board Committee has confirmed that he/she has no material interest in each of the Continuing Connected Transactions.

The Company will appoint an IFA to advise the Independent Board Committee and the Independent Shareholders in respect of each of the Continuing Connected Transactions.

VIII. DEFINITIONS

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

“Agreements”	the Framework Supply Agreement and the Framework Supply and Processing Agreement
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“China” or “PRC”	the People’s Republic of China (except Taiwan, Macau Special Administrative Region and the Hong Kong Special Administrative Region)
“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)

“Continuing Connected Transactions”	the Fuyuan Continuing Connected Transactions and the Mengniu Continuing Connected Transactions
“connected person”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to approve, among other things, the Agreements, the Continuing Connected Transactions and the Proposed Annual Caps
“Feedstuffs”	feedstuffs for dairy cows
“Framework Supply Agreement”	the framework supply agreement dated June 16, 2017 entered into between Modern Farm and Fuyuan in relation to the sale and purchase of Feedstuffs
“Framework Supply and Processing Agreement”	the framework supply and processing agreement dated June 16, 2017 entered into between Modern Farm and Inner Mongolia Mengniu in relation to the sale and purchase of milk products and the provision of the Services
“Fuyuan”	內蒙古富源國際實業有限公司 (Inner Mongolia Fuyuan International Industrial Corporation Limited), a limited liability company established in the PRC in February 2012 and is 42.3% owned by Mengniu as at the date of this announcement
“Fuyuan Continuing Connected Transactions”	the transactions contemplated under the Framework Supply Agreement
“Fuyuan Group”	Fuyuan and its subsidiaries
“Group”	the Company and its subsidiaries
“IFA”	independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Agreements, the Continuing Connected Transactions and the Proposed Annual Caps

“Independent Board Committee”	an independent committee of the Board established by the Board comprising all the independent non-executive Directors
“Independent Shareholders”	Shareholders other than Mengniu and its associates
“Inner Mongolia Mengniu”	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 established in the PRC and is 99.98% owned by Mengniu as at the date of this announcement
“Inner Mongolia Mengniu Group”	Inner Mongolia Mengniu and its subsidiaries
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mengniu”	China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司*), 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: 2319)
“Mengniu Continuing Connected Transactions”	the transactions contemplated under the Framework Supply and Processing Agreement
“Modern Farm”	現代牧業(集團)有限公司 (Modern Farming (Group) Co., Ltd.), a non-wholly owned subsidiary of the Company
“Modern Farm Group”	Modern Farm and its subsidiaries
“Proposed Annual Caps”	the proposed caps for each of the Continuing Connected Transactions for the periods commencing from the respective effective date of the Framework Supply Agreement and the Framework Supply and Processing Agreement to December 31, 2017, from January 1, 2018 to December 31, 2018 and from January 1, 2019 to December 31, 2019, respectively
“Percentage Ratios”	the percentage ratios set out in Rule 14.07 of the Listing Rules

“Services”	as such term is defined in the section headed “II. DETAILS OF THE CONTINUING CONNECTED TRANSACTIONS — B. Framework Supply and Processing Agreement” of this announcement
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

English names of the PRC entities are literal translation of their Chinese names and are included for identification purpose only.

For and on behalf of the Board
China Modern Dairy Holdings Ltd.
LU Minfang
Chairman

Hong Kong, June 16, 2017

As of the date of this announcement, the executive directors are Ms. GAO Lina and Mr. HAN Chunlin, the non-executive directors are Mr. LU Minfang, Mr. WOLHARDT Julian Juul, Mr. ZHANG Ping and Mr. WEN Yongping, the independent non-executive directors are Mr. LI Shengli, Mr. LEE Kong Wai Conway and Mr. KANG Yan.

** For identification purpose only*