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MODERN FARMING
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

References are made to (i) the announcement of China Modern Dairy Holdings Ltd. (the “**Company**”) dated June 16, 2017 in relation to, among other things, the (a) entry into of the Framework Supply Agreement; (b) the entry into of the Framework Supply and Processing Agreement; and (c) the Proposed Annual Caps; (ii) the announcement of the Company dated July 7, 2017 in relation to the delay in despatch of the Circular; and (iii) the announcement of the Company dated July 28, 2017 in relation to the further delay in dispatch of the Circular (the “**Announcements**”). Capitalised terms used herein shall have the same meanings as those defined in the Announcements unless stated otherwise.

Historical Transactions

For the period from March – June 2017, the Group had, on a number of occasions, (i) purchased Feedstuffs from the Fuyuan Group, and (ii) sold milk products and provided the Services to the Inner Mongolia Mengniu Group (the “**Historical Transactions**”). On each occasion of the Historical Transaction, the Company entered respective contract with Inner Mongolia Mengniu Group or Fuyuan Group (as the case may be), which contains, among others, the following terms and conditions:

in case of purchase of Feedstuffs from the Fuyuan Group

- transaction parties;
- transaction amount;
- purchase price;
- delivery time;

* *For identification purposes only*

in case of supply of milk products to the Inner Mongolia Mengniu Group

- transaction parties;
- transaction amount;
- selling price;
- delivery time;

in case of the provision of the Services to the Inner Mongolia Mengniu Group

- transaction parties;
- scope of Services;
- service fee.

In respect of purchase of Feedstuffs from the Fuyuan Group, the price paid and other payment terms were determined by reference to the lowest quoted price and other payment terms proposed to the Modern Farm Group by independent third party suppliers of same type of Feedstuffs. In respect of sale of milk products to the Inner Mongolia Mengniu Group, the selling price was determined on the “cost+ 3%” basis. In respect of provision of the Services to the Inner Mongolia Mengniu Group, the service fees paid by the Inner Mongolia Mengniu Group were about the same price paid by the other parties, for whom the Modern Farm Group processed raw materials according to the same standard and converted such raw materials into dairy products with the same quality.

Reasons for the Historical Transactions

In respect of purchase of Feedstuffs from the Fuyuan Group, the Company needs a large amount of high quality Feedstuffs, which acts as a key source of nutrition for the dairy cows and directly affect the quality of milk and the yield of milk production. The Fuyuan Group is a stable supplier of high quality Feedstuffs. In respect of sales of milk products and provision of the Services to the Inner Mongolia Mengniu Group, the Company considers it 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 (including the independent non-executive Directors) consider that the Historical Transactions were entered into in the usual and ordinary course of business of the Group, were 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 are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Implications under 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.

Up to June 11, 2017, the transaction amount for the purchase of Feedstuffs under the Framework Supply Agreement is approximately RMB5.34 million; up to May 31, 2017, the transaction amount for the sales of milk products to the Inner Mongolia Mengniu Group under the Framework Supply and Processing Agreement is approximately RMB12.97 million (collectively, the “**Relevant Transaction Amounts**”). As certain applicable percentage ratios (based on the Relevant Transaction Amounts) exceeds 0.1% but are less than 5%, the Historical Transactions are subject to reporting, annual review and announcement requirements, but exempt from Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Due to the Company's inadvertent oversight, the Company only became aware of the Historical Transactions of the Relevant Transaction Amounts on about June 2017, and failed to make timely disclosure of the Historical Transactions which constituted a breach of Rule 14A.35 of the Listing Rules.

By the end of June 2017, the total transaction amount for (i) the purchase of Feedstuffs under the Framework Supply Agreement is approximately RMB17.42 million, (ii) the sales of milk products to the Inner Mongolia Mengniu Group under the Framework Supply and Processing Agreement is approximately RMB23.61 million, and (iii) provision of Services to the Inner Mongolia Mengniu Group is approximately RMB0.13 million. Since then, the Modern Farm Group has not conducted any transactions similar to the previous ones with the Fuyuan Group or the Inner Mongolia Mengniu Group.

Measures adopted by the Company on future compliance with the Listing Rules

In order to ensure continuous compliance with the Listing Rules and to prevent a similar incident in the future, the Company will intensify its effort to monitor the transaction amounts of the connected transactions and continuing connected transactions it conducts. The Company has also enhanced training for its Board and senior management. The management of the Company will closely monitor and review the continuing connected transactions of the Company from time to time, so that they will be alerted to the level of the continuing connected transactions periodically. The Group's account and finance department will have more stringent review of the data of the connected transactions. The Group will adopt a threshold reporting procedures of continuing connected transactions to closely monitor the cumulative transaction amount of continuing transactions.

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

Hong Kong, August 4, 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.