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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

(1) AMENDMENT AGREEMENT TO THE FRAMEWORK SUPPLY AND PROCESSING AGREEMENT WITH INNER MONGOLIA MENGNIU

(2) AMENDMENT AGREEMENT TO THE FRAMEWORK SUPPLY AGREEMENT WITH FUYUAN

AND

(3) REVISION OF THE PROPOSED ANNUAL CAPS

INTRODUCTION

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 (the “**Announcement**”); (ii) the announcements of the Company dated July 7, 2017, July 28, 2017, August 18, 2017, September 8, 2017 and October 31, 2017 in relation to the delay in despatch of the Circular (the “**Delay Announcements**”); and (iii) the announcement of the Company dated August 4, 2017 in relation to, amongst others, the Historical Transactions (the “**Supplemental Announcement**”). Capitalised terms used herein shall have the same meanings as those defined in the Announcement, the Delay Announcements and/or the Supplemental Announcement unless stated otherwise.

* For identification purposes only

AMENDMENT AGREEMENT TO THE FRAMEWORK SUPPLY AND PROCESSING AGREEMENT

Given the potential reliance on Mengniu Group as a result of the Mengniu Continuing Connected Transactions as disclosed in the Announcement, the Company is exploring alternative business model in relation to supply of milk products, including disposing part of the milk products business of the Company/establishing a joint venture. Further announcement will be made once the new business plans are crystallized.

In order to facilitate the supply of milk products to the Mengniu Group before the implementation of new business plans, on November 28, 2017, Modern Farm, a non-wholly owned subsidiary of the Company, entered into an amendment agreement to the Framework Supply and Processing Agreement (the “**Amendment Agreement to the Framework Supply and Processing Agreement**”) with Inner Mongolia Mengniu to amend certain provisions of the Framework Supply and Processing Agreement. The principal amendments of the Amendment Agreement to the Framework Supply and Processing Agreement are set out below:

1. The duration of the Framework Supply and Processing Agreement shall be changed to a term commencing from the effective date of the Framework Supply and Processing Agreement to December 31, 2018.
2. The parties agreed not to proceed with the provision of the Services. The Mengniu Continuing Connected Transactions shall therefore only include the sale and purchase of milk products.
3. The passing of the resolutions to approve the Mengniu Continuing Connected Transactions by the Independent Shareholders at the EGM shall no longer be a condition for the Framework Supply and Processing Agreement to become effective. The Framework Supply and Processing Agreement is effective on the date that it was signed.

Revisions of the Proposed Annual Caps

In light of the amendments pursuant to the Amendment Agreement to the Framework Supply and Processing Agreement, the Board proposed to adjust downward the Proposed Annual Caps as follows:

1. the Proposed Annual Cap for the supply of milk products under the Framework Supply and Processing Agreement for each of the periods commencing from the effective date of the Framework Supply and Processing Agreement to December 31, 2017 and from January 1, 2018 to December 31, 2018 shall be adjusted to RMB239.8 million and RMB240 million, respectively; and
2. there shall no longer be any Proposed Annual Caps for the provision of the Services.

For the period from the date of the Supplemental Announcement to the date of this announcement (the “**Period**”), while the Company was considering the feasibility of proceeding with the Mengniu Continuing Connected Transactions, due to commercial reality, the Group had, on a number of occasions, sold milk products to the Inner Mongolia Mengniu Group (the “**Mengniu Historical Transactions**”). During the Period, the transaction amount for the sales of milk products to the Inner Mongolia Mengniu Group under the Framework Supply and Processing Agreement is approximately RMB165.7 million (the “**Mengniu Historical Transaction Amounts**”). The Mengniu Historical Transaction Amounts will be included in the calculation of the Proposed Annual Caps. As certain applicable Percentage Ratios (based on the Mengniu Historical Transaction Amounts) exceeds 0.1% but are less than 5%, the Mengniu 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. The Company failed to make timely disclosure of the Mengniu Historical Transactions which constituted a breach of Rule 14A.35 of the Listing Rules.

The amounts of the revised Proposed Annual Caps for the supply of milk products under the Framework Supply and Processing Agreement 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); (iii) anticipated growth of the market demands for the milk products; and (iv) the Mengniu Historical Transaction Amounts.

AMENDMENT AGREEMENT TO THE FRAMEWORK SUPPLY AGREEMENT

On November 28, 2017, Modern Farm also entered into an amendment agreement to the Framework Supply Agreement (the “**Amendment Agreement to the Framework Supply Agreement**”, and together with the Amendment Agreement to the Framework Supply and Processing Agreement, the “**Amendment Agreements**”) with Fuyuan to amend certain provisions of the Framework Supply Agreement. The principal amendments of the Amendment Agreement to the Framework Supply Agreement are set out below:

1. 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 shall be adjusted to RMB180 million, RMB230 million and RMB230 million, respectively.
2. The passing of the resolutions to approve the Fuyuan Continuing Connected Transactions by the Independent Shareholders at the EGM shall no longer be a condition for the Framework Supply Agreement to become effective. The Framework Supply Agreement is effective on the date that it was signed.

Revisions of the Proposed Annual Caps

In light of the amendments pursuant to the Amendment Agreement to the Framework Supply Agreement, the Board proposed to adjust downward the Proposed Annual Caps. The Proposed Annual Caps for the purchase of Feedstuffs under the Framework Supply Agreement 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 shall be adjusted to RMB180 million, RMB230 million and RMB230 million, respectively.

During the Period, while the Company was considering the feasibility of proceeding with the Fuyuan Continuing Connected Transactions, due to commercial reality, the Group had, on a number of occasions, purchased Feedstuffs from the Fuyuan Group (the “**Fuyuan Historical Transactions**”). During the Period, the transaction amount for the purchase of Feedstuffs from the Fuyuan Group under the Framework Supply Agreement is approximately RMB67.5 million (the “**Fuyuan Historical Transaction Amounts**”). The Fuyuan Historical Transaction Amounts will be included in the calculation of the Proposed Annual Caps. As certain applicable Percentage Ratios (based on the Historical Transactions Amounts) exceeds 0.1% but are less than 5%, the Fuyuan 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. The Company failed to make timely disclosure of the Fuyuan Historical Transactions which constituted a breach of Rule 14A.35 of the Listing Rules.

The amounts of the revised Proposed Annual Caps for the purchase of Feedstuffs under the Framework Supply Agreement 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; (iii) anticipated growth of the Modern Farm Group’s demands for the Feedstuffs taking into account of life cycle of production and sales; and (iv) the Fuyuan Historical Transaction Amounts.

The Directors (including the independent non-executive Directors) are of the view that the Amendment Agreements and the transactions contemplated therein are conducted on arm’s length basis and on normal commercial terms in the ordinary and usual course of business of the Group, and that the terms of the Amendment Agreements and the revised Proposed Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Mr. LU Minfang is an executive director and chief executive officer of Mengniu. Mr. WOLHARDT Julian Juul is an independent non-executive director of Mengniu. Mr. ZHANG Ping is the chief financial officer of Mengniu. Accordingly, each of Mr. LU Minfang, Mr. WOLHARDT Julian Juul and Mr. ZHANG Ping is considered to have a material interest in the Amendment Agreements and the revised Proposed Annual Caps. As such, each of Mr. LU Minfang, Mr. WOLHARDT Julian Juul and Mr. ZHANG Ping has abstained from voting on the relevant board resolutions approving the Amendment Agreements and the revised Proposed Annual Caps.

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 60.76% 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 the highest applicable Percentage Ratios in respect of each of the Fuyuan Continuing Connected Transactions and the Mengniu Continuing Connected Transactions pursuant to the Agreements (as amended by the Amendment Agreements) exceeds 0.1% but is less than 5%, the revised Fuyuan Continuing Connected Transactions and the revised Mengniu Continuing Connected Transactions are only subject to the reporting and announcement requirements but are exempt from the circular (including independent financial advice) and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Accordingly, the Circular will not be despatched.

Save for the amendments and revisions as stated above, all other principal terms and conditions of the Agreements shall remain in full force and effect and all other key information contained in the Announcement remains unchanged.

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

Hong Kong, November 28, 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.