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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)**

**DISCLOSABLE AND CONNECTED TRANSACTION  
DISPOSAL OF 50% EQUITY INTEREST IN SUBSIDIARIES**

**THE DISPOSAL**

The Board announces that, on January 22, 2018, Modern Farm, a non-wholly owned subsidiary of the Company, and the Buyer entered into the Share Transfer Agreements, pursuant to which Modern Farm agreed to sell, and the Buyer agreed to acquire, the Sale Shares for the consideration of RMB56.04 million in aggregate, the terms and conditions of the Share Transfer Agreements.

**LISTING RULES IMPLICATIONS**

As one or more of the applicable Percentage Ratios calculated in accordance with the Listing Rules are more than 5% but less than 25%, the Disposal constitutes a disclosable transaction of the Company. As at the date of this announcement, the Buyer is a company owned as to 99.98% by Mengniu and Mengniu is a substantial shareholder of the Company. The Buyer is therefore an associate of Mengniu and a connected person of the Company under Chapter 14A of the Listing Rules.

The Disposal therefore constitutes a disclosable and connected transaction of the Company and is subject to (1) the notification and announcement requirements under Chapter 14 of the Listing Rules and (2) the announcement, shareholders' approval, circular and annual reporting requirements under Chapter 14A of the Listing Rules.

\* For identification purposes only

## **CIRCULAR**

The Disposal will be subject to, among other things, 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 on the Disposal; (b) a letter from the IFA containing its advice on the Disposal; (c) recommendation of the Independent Board Committee to the Independent Shareholders on the Disposal; and (d) a notice to convene the EGM to approve, among other things, the entering into of the Share Transfer Agreements, will be issued to the Shareholders on or before February 12, 2018.

The Independent Board Committee has been established to advise the Independent Shareholders as to whether the terms of the Disposal are fair and reasonable, and to advise the Independent Shareholders on how to vote.

**Shareholders and potential investors of the Company should note the existence of uncertainties and risks in relation to the Completion of the Disposal (see additional disclosure below). Completion of the Disposal therefore is subject to uncertainties. Shareholders and potential investors of the Company are advised to exercise caution in dealing in the Shares.**

## **INTRODUCTION**

The Board announces that, on January 22, 2018, Modern Farm, a non-wholly owned subsidiary of the Company, and the Buyer entered into the Share Transfer Agreements, pursuant to which Modern Farm agreed to sell, and the Buyer agreed to acquire, the Sale Shares for the consideration of RMB56.04 million, subject to the appraised value of the Target Companies and the terms and conditions of the Share Transfer Agreements.

## **THE SHARE TRANSFER AGREEMENTS**

The principal terms of the Share Transfer Agreements are summarized as follows:

### **Date**

January 22, 2018

### **Parties**

- (1) Modern Farm as the vendor; and
- (2) the Buyer.

### **Subject Matter**

Modern Farm agreed to sell, and the Buyer agreed to acquire, the Sale Shares, subject to the terms and conditions of the Share Transfer Agreements.

## **Consideration**

The consideration is RMB56.04 million in aggregate, with reference to the appraised value of the Target Companies as at November 30, 2017 pursuant to the appraisal report prepared by an independent third party appraisal agency (the “**Appraised Value**”) adopting the assets-based approach (“**Consideration**”).

The Consideration shall be satisfied by the Buyer in RMB by way of one-off payment within 15 Business Days following the date of completion of the change of business registration in relation to the Disposal.

The Consideration was determined after arm’s length negotiations between Modern Farm and the Buyer and with reference to the Appraised Value. For further details on the financial impact of the Disposal on the Group and the reasons and benefits of the Disposal, please refer to the sections headed “Financial Impact of the Disposal on the Group” and “Reasons for the Disposal and Benefits to the Group” below.

## **Completion**

Completion shall take place on the Business Day when the Buyer pays the Consideration in full.

The parties shall, on a best-efforts basis and within 90 days from the date of the Share Transfer Agreements:

- (a) obtain the approval of the Independent Shareholders at the EGM of the Share Transfer Agreements and the Disposal;
- (b) assist the Target Companies with the completion of the change of business registration procedures in relation to the Disposal; and
- (c) register the Buyer’s name in the registers of shareholders of the Target Companies and issue capital contribution certificates to the Buyer.

Upon Completion, each of the Target Companies will be owned by the Company and the Buyer on a 50/50 basis. The board of directors of each of the Target Companies will comprise five members, and the Company and the Buyer are entitled to appoint two directors and three directors to the board of each of the Target Companies, respectively. The chairman of each of the Target Companies shall be a director appointed by the Buyer and the vice chairman of each of the Target Companies shall be a director appointed by the Company. A manager and a chief financial officer, who shall be appointed by the Buyer, will be responsible for the day-to-day management of the Company.

**Shareholders and potential investors of the Company should note the existence of uncertainties and risks in relation to the Completion of the Disposal (see additional disclosure below). Completion of the Disposal therefore is subject to uncertainties. Shareholders and potential investors of the Company are advised to exercise caution in dealing in the Shares.**

## Information on the Target Companies and The Target Business

The details of each of the Target Companies are set out below:

The Target Companies are originally attributed to two milk production business units (the “**Milk Product BU**”) of two subsidiaries of the Company that are involved in the production and distribution of milk products and operation of dairy farms in the PRC. Each of the Target Companies, which consisted of MD Bengbu and MD Feidong, had split off its dairy farm business unit by incorporation of two new companies on July 24, 2017 and May 16, 2016, respectively, leaving the Milk Product BUs with the Target Companies.

### *Financial information of the Target Business*

Set out below is the unaudited financial information of the Milk Product BU of MD Bengbu for the financial years ended December 31, 2015 and 2016:

	<b>For the financial years ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	802,042	694,684
Net (loss)/profit before taxation	(310,442)	75,180
Net (loss)/profit after taxation	(310,442)	75,180

The unaudited total asset value and net asset value of Milk Product BU of MD Bengbu as at November 30, 2017 were RMB552,540,525 and RMB52,474,924, respectively.

Set out below is the unaudited consolidated financial information of the Milk Product BU of MD Feidong for the financial years ended December 31, 2015 and 2016:

	<b>For the financial years ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	242,082	474,029
Net (loss)/profit before taxation	(24,580)	60,184
Net (loss)/profit after taxation	(24,580)	60,184

The unaudited total asset value and net asset value of Milk Product BU of MD Feidong as at November 30, 2017 were RMB209,413,056 and RMB59,590,823, respectively.

## **Financial Impact of the Disposal on the Group**

Based on the Consideration and the net asset value of the Target Companies as at November 30, 2017, the Company is not expected to record significant unaudited gain or loss on the Disposal. The Group intends to apply the proceeds from the Disposal to supplement the general working capital of the Group.

Upon Completion, the Target Companies will cease to be subsidiaries of the Company and are expected to become subsidiaries of the Buyer. The financial results of the Target Companies will no longer be consolidated into the consolidated financial statements of the Group, and are expected to be consolidated into the consolidated financial statements of the Buyer.

## **REASONS FOR THE DISPOSAL AND BENEFITS TO THE GROUP**

The Company is of the view that the Disposal provides a good opportunity for the Group to reduce reliance on the Mengniu Group. The Company considers that, under the current market conditions, the core competitive advantages of its business strategies is not the operation of milk products business. In addition, the operation of the milk products business requires significant amount of resources from the Group. Therefore, the Company believes that it is in the best interest of the Company and the Shareholders as a whole to focus on operating dairy farms in China and the business of providing raw milk.

The Group intends to apply the proceeds from the Disposal to supplement the general working capital of the Group, which include reducing its interest-bearing borrowings so as to strengthen its financial position.

Mengniu Group is one of the leading dairy product manufacturers that are coupled with strong management team and solid distribution network of dairy products in the PRC. The Company believes that the mutual and complementary partnership with Mengniu could create value for its shareholders by leveraging on Mengniu's core strengths and taking advantage of the privileged dairy policies launched by the PRC government. Therefore, the Company determined to retain 50% interest in the Target Companies.

The Directors (other than the independent non-executive Directors, whose views will be included in the circular to be despatched to the Shareholders) consider that the Disposal is fair and reasonable and the terms of the Share Transfer Agreements, which have been reached after arm's length negotiations among the parties, are on normal commercial terms, 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. Mr. WEN Yongping is the assistant vice president of Mengniu and the general manager of the milk sources business department of Mengniu. Accordingly, each of Mr. LU Minfang, Mr. WOLHARDT Julian Juul, Mr. ZHANG Ping and Mr. WEN Yongping is considered to have a material interest in the Share Transfer Agreements. 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 Share Transfer Agreements.

## **RELATIONSHIP WITH THE MENGNIU GROUP UPON COMPLETION**

Upon the Completion, it is expected that the principal business of the Group will be the supply of fresh raw milk, and the Mengniu Group will be its key customer. Having taken into account the factors below, the Board is of the view that the Group's customer concentration on the Mengniu Group is due to the dairy product industry norms in China, and that the Company is able to operate on a stand-alone basis.

**Few market key players.** The Mengniu Group is one of the leading dairy product manufacturers in China. The dairy products industry in China is dominated by only a few market players, which is highly concentrated. According to the AC Nielsen's data, the market share of the top three players account for up to 58% in 2016, of which Mengniu had taken up approximately 24%. Mengniu has been listed on the Main Board of the Stock Exchange (stock code: 2319) since June 2004 and has been regulated under, amongst others, the relevant laws and regulations in Hong Kong including but not limited to the Listing Rules. The Group started to sell raw milk to the Mengniu Group in 2006. Given the limited number of key market players, the long term business relationship with the Mengniu Group and the current shareholding relationship between Mengniu and the Company, the Board is of the view that the Mengniu Group is a valuable, creditable and strategic business partner of the Group, and that the cooperation with them can bring stable revenue and sound economic return to the Group.

**Reliance is mutual and complementary.** The Group is one of the few companies that operate large-scale dairy farms in China and provide high quality fresh raw milk. Most of the Group's dairy farms are located close to the Mengniu Group's manufacturing facilities. The Company believes that the Group is well-positioned to be a strategically important supplier of the Mengniu Group of the freshest raw milk of high quality. Given the Group's over 10 years' business relationship with the Mengniu Group, the Group's production know-how, the quality of the Group's products meeting the requirements of Mengniu and its high end customers, the Board considers that the strategic partnership in supply of raw milk between the Group and the Mengniu Group is mutually beneficial to both parties.

**Capability of expanding customer base.** Pursuant to an off-take fresh raw milk supply agreement entered into with Inner Mongolia Mengniu in October 2008, the Group has flexibility to sell up to 30% of raw milk produced daily at each dairy farm to third parties at the Group's discretion, except to two of Mengniu's competitors. Since its listing, the Company has managed to expand its customer base for raw milk. The sales of raw milk to independent third parties accounted for approximated 28.3%, 30.7% and 30.6% of the total sales of raw milk of the Group in 2014, 2015 and 2016, respectively, and it is expected that the relevant percentages will increase in the future. Compared to the approximately 97.6% of the Group's total sales of raw milk to Mengniu Group in 2010 when the Group was listed on the Main Board of the Stock Exchange, the Company considers that the Group has successfully expanded its customer base since its listing and managed to mitigate customer concentration risk to a reasonable extent.

**Capability to maintain revenue in the future.** While the Group has a high reputation in the industry in terms of high quality of raw milk supply, the Mengniu Group is one of the leading dairy product manufacturers in China. With the Chinese government fully implementing the infant milk formula registration system in 2018, the industry is expected to be more consolidated and well set for long-term development. The Ministry of Agriculture of Chinese government also launched "Five Major Actions" to help accelerate modernization of the dairy industry and boost consumer confidence in domestic dairy products. In addition, raw milk price in the dairy industry has rebounded in the second half of 2017 and is gaining its momentum in the first half of 2018. The Company is optimistic that the raw milk price could substantiate its growth in a long term manner. It is reasonably expected that the Company and the Mengniu Group will leverage on the privileged policies and market rebound, which in turn will substantiate the revenue of the Company. With their respective reputation in the industry and the privileged polices, the Board believes that the Group is capable to maintain stable revenue in the future.

## **INFORMATION ON THE PARTIES**

### **The Group**

The Group is the largest dairy farming company and the largest producer of fresh raw milk in China in terms of herd size and quantity. As of June 30, 2017, the Group operated a total of 26 livestock farms in China with 223,217 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 feedstuff. 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.

### **The Buyer**

The Buyer 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 the Buyer.

## **LISTING RULES IMPLICATIONS**

As one or more of the applicable Percentage Ratios calculated in accordance with the Listing Rules are more than 5% but less than 25%, the Disposal constitutes a discloseable transaction of the Company.

As at the date of this announcement, the Buyer 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. The Buyer is therefore an associate of Mengniu and a connected person of the Company under Chapter 14A of the Listing Rules.

The Disposal therefore constitutes a discloseable and connected transaction of the Company and is subject to (1) the notification and announcement requirements under Chapter 14 of the Listing Rules and (2) the announcement, shareholders' approval, circular and annual reporting requirements under Chapter 14A of the Listing Rules.

## **EGM AND CIRCULAR**

The Disposal 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 on the Disposal; (b) a letter from the IFA containing its advice on the Disposal; (c) recommendation of the Independent Board Committee to the Independent Shareholders on the Disposal; and (d) a notice to convene the EGM to approve, among other things, the entering into of the Share Transfer Agreements, will be issued to the Shareholders on or before February 12, 2018.

An Independent Board Committee has been established to advise the Independent Shareholders as to whether the terms of the Disposal are fair and reasonable, and to advise the Independent Shareholders on how to vote.

The Company will appoint an IFA to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposal.

## **DEFINITIONS**

In this announcement, unless the context requires otherwise, the following terms have the meanings as defined below:

“Board”	the board of directors of the Company
“Business Day”	a day on which the Stock Exchange is open for the transaction of business
“Buyer” or “Inner Mongolia Mengniu”	Inner Mongolia Mengniu Dairy (Group) Company Limited* (內蒙古蒙牛乳業(集團)股份有限公司), a company incorporated in the PRC with limited liability and is 99.98% owned by Mengniu as at the date of this announcement



“Company”	China Modern Dairy Holdings Ltd., a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 1117)
“Completion”	completion of the Disposal in accordance with the terms and conditions of the Share Transfer Agreements
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Shares in accordance with the terms and conditions of the Share Transfer Agreements
“EGM”	the extraordinary general meeting to be held by the Company for the purpose of enabling the Independent Shareholders to consider and vote to approve the Disposal
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“IFA”	Donvex Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to the Disposal
“Independent Board Committee”	the independent committee of the Board which comprises all independent non-executive Directors and was established to advise the Independent Shareholders on the Disposal
“Independent Shareholder(s)”	Shareholders of the Company other than Mengniu and its associates and any other Shareholder(s) materially interested in the Disposal
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Mengniu”	China Mengniu Dairy Company Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 2319)
“Mengniu Group”	Mengniu and its subsidiaries

“MD Bengbu”	Modern Dairy (Bengbu) Co., Ltd.* (現代牧業(蚌埠)有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“MD Bengbu Sale Shares”	50% of the entire issued share capital of MD Bengbu
“MD Feidong”	Modern Dairy (Feidong) Co., Ltd.* (現代牧業(肥東)有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“MD Feidong Sale Shares”	50% of the entire issued share capital of MD Feidong
“Modern Farm”	Modern Farming (Group) Co., Ltd. (現代牧業(集團)有限公司), a non-wholly owned subsidiary of the Company
“Percentage Ratios”	the percentage ratios set out in Rule 14.07 of the Listing Rules
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	MD Bengbu Sale Shares and MD Feidong Sale Shares
“Share Transfer Agreements”	the share transfer agreements dated January 22, 2018 entered into between Modern Farm and the Buyer in relation to the Disposal
“Share(s)”	ordinary share(s) of par value HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Companies”	MD Bengbu and MD Feidong

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

Hong Kong, January 22, 2018

*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