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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **CHINA MODERN DAIRY HOLDINGS LTD.**, you should at once hand this circular and the accompanying proxy form to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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  
AND  
CLOSURE OF REGISTER OF MEMBERS  
AND  
NOTICE OF SPECIAL GENERAL MEETING**

**Independent Financial Adviser to the  
Independent Board Committee and Independent Shareholders**



**Donvex Capital Limited**  
**富域資本有限公司**

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A letter from the Independent Board Committee with its recommendations to the Independent Shareholders is set out on pages 13 of this circular. A letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 14 to 24 of this circular.

A notice convening the EGM of the Company to be held at Marina Room II, 2/F., The Excelsior Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Friday, March 2, 2018 at 10:00 a.m. is set out on pages 37 to 38 of this circular. If you are not able to attend the EGM, please complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong at Computershare Hong Kong Investor Services Limited at 17M, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

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## DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“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 Latest Practicable Date
“China” or “PRC”	the People’s Republic of China (except Taiwan, Macau Special Administrative Region and Hong Kong)
“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)
“Completion”	completion of the Disposal in accordance with the terms and conditions of the Share Transfer Agreements
“connected person”	has the meaning ascribed to it under the Listing Rules
“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 of the Company to be convened and held at Marina Room II, 2/F., The Excelsior Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong at 10:00 a.m. on Friday, March 2, 2018, the notice of which is set out on pages 37 to 38 of this circular, and any adjournment thereof
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

\* for identification purpose only

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## DEFINITIONS

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“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board established by the Board comprising all the independent non-executive Directors
“Independent Financial Adviser” or “Donvex Capital”	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 to the Independent Board Committee and the Independent Shareholders as to the Disposal
“Independent Shareholders”	Shareholders other than Mengniu and its associates
“Latest Practicable Date”	February 9, 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“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 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 a wholly-owned subsidiary of Modern Farm
“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 a wholly-owned subsidiary of Modern Farm
“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

\* for identification purpose only

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## DEFINITIONS

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“Percentage Ratios”	the percentage ratios set out in Rule 14.07 of the Listing Rules
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	MD Bengbu Sale Shares and MD Feidong Sale Shares
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Transfer Agreements”	the share transfer agreements dated January 22, 2018 entered into between Modern Farm and the Buyer in relation to the Disposal
“Shareholder(s)”	shareholder(s) of the Company
“Share(s)”	the ordinary share(s) in the issued share capital of the Company with a par value of HK\$0.10 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Companies”	MD Bengbu and MD Feidong
“Valuation Report”	the valuation report prepared by the Valuer dated November 30, 2017 in respect of the appraised value of the Target Companies using the assets-based approach
“Valuer”	Asia-Pacific Consulting and Appraisal Limited, an independent third party appraisal agency

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## LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Ms. GAO Lina

*(Deputy Chairman & Chief Executive Officer)*

Mr. HAN Chunlin *(Chief Operation Officer)*

*Non-executive Directors:*

Mr. LU Minfang *(Chairman)*

Mr. WOLHARDT Julian Juul

Mr. ZHANG Ping

Mr. WEN Yongping

*Independent non-executive Directors:*

Mr. LI Shengli

Mr. LEE Kong Wai Conway

Mr. KANG Yan

*Registered Office:*

Maples Corporate Service Limited

PO Box 309

Ugland House

Grand Cayman, KY1-1104

Cayman Islands

*Principal place of business in*

*Hong Kong:*

Room A, 32nd Floor

COFCO Tower, 262 Gloucester Road

Causeway Bay, Hong Kong

February 12, 2018

*To the Shareholders*

Dear Sir and Madam,

### **DISCLOSABLE AND CONNECTED TRANSACTION DISPOSAL OF 50% EQUITY INTEREST IN SUBSIDIARIES AND NOTICE OF SPECIAL GENERAL MEETING**

#### **1. INTRODUCTION**

Reference is made to the announcement of the Company dated January 22, 2018, whereby the Board announced that Modern Farm, a non-wholly owned subsidiary of the Company, entered into the Share Transfer Agreements with the Buyer, pursuant to which Modern Farm agreed to sell,

\* *for identification purpose only*

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## LETTER FROM THE BOARD

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and the Buyer agreed to acquire, the Sale Shares for the consideration of RMB56.04 million, with reference to the appraised value of the Target Companies and the terms and conditions of the Share Transfer Agreements.

The purpose of this circular is to provide you with, among other things, (i) the Disposal; (ii) a letter from Donvex Capital containing its advices to the Independent Board Committee and the Independent Shareholders; (iii) a letter from the Independent Board Committee with its recommendation to the Independent Shareholders; and (iv) the notice of the EGM.

### 2. 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 (“**Consideration**”), with reference to the appraised value of the Target Companies as at November 30, 2017 pursuant to the appraisal report prepared by the Valuer, (the “**Appraised Value**”) adopting the assets-based approach. According to the Valuation Report, the Appraised Value is RMB112 million. More details of the Valuation Report are set out in the Appendix I hereto.

The Consideration shall be satisfied by the Buyer in RMB by way of one-off payment within 15 Business Days following the 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.

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## LETTER FROM THE BOARD

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### **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 Modern Farm 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 Target Companies.

**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.**

### **3. 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.



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## LETTER FROM THE BOARD

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### 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:

	For the financial years ended December 31,	
	2016	2015
	RMB'000	RMB'000
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. The net asset value of Milk Product BU of MD Bengbu does not contain any inter-company balances with the split off remaining group.

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:

	For the financial years ended December 31,	
	2016	2015
	RMB'000	RMB'000
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. The net asset value of Milk Product BU of MD Feidong does not contain any inter-company balances with the split off remaining group.

#### 4. 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 expected to record an unaudited gain of RMB7,126 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.

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## LETTER FROM THE BOARD

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### 5. 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, and 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, Modern Farm 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.

### 6. 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.

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## LETTER FROM THE BOARD

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**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 at the start 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 policies, the Board believes that the Group is capable to maintain stable revenue in the future.

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## LETTER FROM THE BOARD

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### 7. 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 Latest Practicable Date, Mengniu owns 99.98% of the equity interests in the Buyer.

### 8. 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 Latest Practicable Date, 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 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.

### 9. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee of the Company comprising the independent non-executive Directors, namely, Mr. LI Shengli, Mr. LEE Kong Wai Conway and Mr. KANG Yan 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. Donvex Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

Your attention is drawn to the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders set out on pages 13 of this circular and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 14 to 24 of this circular.

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## LETTER FROM THE BOARD

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### 10. DISCLOSURE OF DIRECTORS' INTERESTS

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, Mr. ZHANG Ping and Mr. WEN Yongping has abstained from voting on the relevant board resolutions approving the Share Transfer Agreements.

### 11. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, March 1, 2018 to Friday, March 2, 2018, both days, inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Computershare Hong Kong Investor Services Limited at 17M, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, February 28, 2018.

### 12. EGM

The Company will convene the EGM at 10:00 a.m. on Friday, March 2, 2018 at Marina Room II, 2/F., The Excelsior Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong to consider and, if thought fit, approve the Disposal. A notice of the EGM is set out on pages 37 to 38 of this circular.

Pursuant to Rule 13.39(4) of the Listing Rules, the resolutions to be proposed at the EGM will be taken by poll, the results of which will be announced after the EGM.

Mengniu and its associates, and any Shareholders who are materially interested in the Disposal and the Share Transfer Agreements, are required to abstain from voting on the respective resolution proposed to be passed at the EGM for approving the Disposal and the Share Transfer Agreements.

Save as disclosed above, to the extent that the Company is aware and having made all reasonable enquiries, as at the Latest Practicable Date, there is no voting trust or other agreement, arrangement or understanding entered into by or binding upon any Shareholders and none of the Shareholders is subject to any obligation or entitlement, whereby such Shareholder has or might have temporarily or permanently passed control over the exercise of the voting right in respect of its shares in the Company to a third party, whether generally or on a case-by-case basis.

To the best knowledge of the Directors after making all reasonable enquiries, as at the Latest Practicable Date, Mengniu and its associates held an aggregate of 3,725,769,412 Shares, representing approximately 60.76% of the entire issued share capital of the Company.

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## LETTER FROM THE BOARD

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A proxy form for use at the EGM is enclosed herein. If you are not able to attend the EGM, please complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong at Computershare Hong Kong Investor Services Limited at 17M, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

### 13. RECOMMENDATIONS

Your attention is drawn to:

- A. the letter from the Independent Board Committee set out on pages 13 of this circular which contains its recommendation to the Independent Shareholders; and
- B. the letter from the Independent Financial Adviser set out on pages 14 to 24 of this circular which contains its recommendation to the Independent Board Committee and the Independent Shareholders.

The Independent Board Committee, having considered the terms of the Share Transfer Agreements and the Disposal, and taken into account the advice of the Independent Financial Adviser, considers that the terms of each of the Share Transfer Agreements on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the EGM as set out in the notice of the EGM.

Taking into account the letter from the Independent Board Committee and all other factors stated above as a whole, the Directors are of the view that the terms of each of the Share Transfer Agreements are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors also recommend the Independent Shareholders to vote in favor of the ordinary resolutions to be proposed at the EGM to approve the Disposal and the Share Transfer Agreements.

### 14. FURTHER INFORMATION

Your attention is also drawn to the general information set out in the Appendix to this circular.

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



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)**

February 12, 2018

*To the Independent Shareholders*

Dear Sir and Madam,

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

We refer to the circular dated February 12, 2018 issued by the Company to the Shareholders (the “**Circular**”) of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders on whether the terms of each of the Share Transfer Agreements and the Disposal are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Donvex Capital has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this respect. We wish to draw your attention to the letter of advice issued by the Independent Financial Adviser which is set out on pages 14 to 24 of the Circular.

Having considered the terms of the Share Transfer Agreements and the Disposal, and taken into account the advice of the Independent Financial Adviser, we are of the view that the terms of each of the Share Transfer Agreements and the Disposal are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole, notwithstanding that the Disposal is not in the ordinary and usual course of business of the Group. We therefore recommend that the Independent Shareholders should vote in favor of the ordinary resolutions to be proposed at the EGM to approve the Share Transfer Agreements and the Disposal.

Yours faithfully,

For and on behalf of

**Independent Board Committee**

**Mr. LEE Kong Wai Conway**

*Independent non-executive Directors*

**Mr. LI Shengli**

**Mr. KANG Yan**

\* *for identification purpose only*

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## LETTER FROM DONVEX CAPITAL LIMITED

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*The following is the full text of the letter from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



Unit 1305, 13th Floor  
Carpo Commercial Building  
18-20 Lyndhurst Terrace  
Central  
Hong Kong

February 12, 2018

*The Independent Board Committee and the Independent Shareholders*

Dear Sir/Madam,

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

#### **INTRODUCTION**

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Share Transfer Agreements and the Disposal contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated February 12, 2018 to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used herein have the same meanings as those defined in the Circular unless otherwise stated.

Reference is made to the announcement dated January 22, 2018 in relation to the Share Transfer Agreements and the Disposal contemplated thereunder.

On January 22, 2018, Modern Farm, a non-wholly owned subsidiary of the Company, entered into the Equity Transfer Agreements with the Buyer, pursuant to which Modern Farm conditionally agreed to sell and the Buyer conditionally agreed to acquire the 50% equity interest in MD Bengbu and MD Feidong (together the “**Sale Shares**”) at an aggregate consideration of RMB56.04 million.

As at the Latest Practicable Date, the Buyer is owned as to 99.98% by Mengniu which is a substantial shareholder of the Company, holding approximately 60.76% of the total number of Shares in issue of the Company. As such, the Buyer is an associate of Mengniu and therefore 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 the Disposal under the Share Transfer Agreements are more than 5% but less than 25%, the entering into the Share Transfer Agreements and the Disposal constitute a disclosable and connected transaction of the Company and are subject to (i) the notification and announcement requirements under Chapter 14 of the Listing Rules; and (ii) the announcement, shareholders’ approval, circular and annual reporting requirement under Chapter 14A of the Listing Rules.



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## LETTER FROM DONVEX CAPITAL LIMITED

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The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. LI Shengli, Mr. LEE Kong Wai Conway and Mr. KANG Yan, has been established to advise the Independent Shareholders as to (i) whether the terms of the Share Transfer Agreements and the Disposal are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect to the relevant resolutions(s) to approve the Share Transfer Agreements and the Disposal contemplated thereunder at the EGM. We, Donvex Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

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 and therefore has abstained from voting on the relevant board resolutions approving the Share Transfer Agreements and the Disposal contemplated thereunder.

Mengniu and its associates will abstain from voting on the resolution(s) in respect of the Share Transfer Agreements and the Disposal contemplated at the EGM. Save for the above, to the best knowledge, information and belief of the Directors, as at the Latest Practicable Date, no other Shareholder is required to abstain from voting at the EGM.

### **OUR INDEPENDENCE**

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. In addition to our engagement as the Independent Financial Adviser, Donvex Capital Limited has also acted as an independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to the continuing connected transactions in the past two years.

We are independent from and not connected with the Group pursuant to Rule 13.84 of the Listing Rules and, accordingly, are qualified to advise the Independent Board Committee and the Independent Shareholders in respect of the Share Transfer Agreements and the Disposal contemplated thereunder. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which

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## LETTER FROM DONVEX CAPITAL LIMITED

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would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true up to the Latest Practicable Date.

The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular are accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs of the Company, its subsidiaries or associates, nor have we carried out any independent verification of the information provided.

Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Share Transfer Agreements and the Disposal contemplated thereunder and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the Share Transfer Agreements and the Disposal contemplated thereunder, we have taken into consideration the following principal factors and reasons:

#### **1. Background of the parties**

##### *The Group*

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

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## LETTER FROM DONVEX CAPITAL LIMITED

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Set out below is the financial information in the financial statements of the Group for the years ended December 31, 2015 (the “**FY2015**”) and 2016 (the “**FY2016**”) and for the six months ended June 30, 2017 (the “**HY2017**”) as extracted from the annual report of the Company for the year ended December 31, 2016 (“**2016 Annual Report**”) and the interim report of the Company for the six months ended June 30, 2017 (“**2017 Interim Report**”).

	<b>For the six months ended June 30, 2017</b>	<b>For the year ended December 31,</b>	
	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)	(Audited)
Revenue	2,344,380	4,862,311	4,826,341
Net (loss)/profit for the period/year	(687,513)	(785,495)	343,718
including:			
– Segment revenue of the liquid milk products	405,092	1,478,744	1,501,875
– Segment (loss)/profit of the liquid milk products for the period/year	(306,200)	(355,719)	220,530

As the above table illustrates, the segment revenue of liquid milk products of the Group slightly decreased from approximately RMB1,501.9 million for FY2015 to approximately RMB1,478.7 million for FY2016. The segment loss of approximately RMB355.7 million was incurred for liquid milk products for FY2016 as compared to the segment profit of approximately RMB220.5 million for FY2015. According to the 2016 Annual Report, such significant decrease in the profit of liquid milk products segment was mainly due to the significant increase in the marketing expense and expansion cost on the distribution network.

For HY2017, the net loss for the liquid milk products segment of the Group further increased to approximately RMB306.2 million due to the same reason mentioned above, as compared to the segment profit of approximately RMB165,000 for the six months ended June 30, 2016. Accordingly, a net loss of approximately RMB678.5 million was incurred for the Group for HY2017.

### *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 Buyers.

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## LETTER FROM DONVEX CAPITAL LIMITED

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### *Target Companies*

As at the Latest Practicable Date, the Target Companies, being MD Bengbu and MD Feidong, are the direct wholly-owned subsidiaries of the Company. The Target Companies originally included the dairy farm business unit and milk production business unit (“**Milk Production Business Unit**”) respectively. MD Bengbu and MD Feidong transferred their dairy farm business unit to a new subsidiary of the Company on July 24, 2017 and May 16, 2016 respectively. As such, the existing assets of the Target Companies merely include the respective Milk Production Business Unit.

### *Financial information of the Target Companies*

Set out below is the unaudited financial information of the Milk Production Business Units of MD Bengbu and MD Feidong for the years ended December 31, 2015 and 2016 respectively.

	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
MD Bengbu:		
Revenue	802,042	694,684
Net (loss)/profit for the year	(310,442)	75,180
MD Feidong:		
Revenue	242,082	474,029
Net (loss)/profit for the year	(24,580)	60,184

With reference to the management accounts of MD Bengbu and MD Feidong provided by the Company as stated in the Letter from the Board, the unaudited total asset value and net asset value of the Milk Production BU of MD Bengbu and MD Feidong as at November 30, 2017 are illustrated in the following table.

	<b>As at November 30, 2017</b>	
	<b>Total Assets</b>	<b>Net Assets</b>
	<i>RMB</i>	<i>RMB</i>
	(Unaudited)	(Unaudited)
MD Bengbu	552,540,525	52,474,924
MD Feidong	209,413,056	59,590,823
	761,953,581	112,065,747
Total	761,953,581	112,065,747

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## LETTER FROM DONVEX CAPITAL LIMITED

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### 2. Principal terms of the Share Transfer Agreements

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

- Date: January 22, 2018
- Parties: (a) Modern Farm as the vendor; and  
(b) Inner Mongolia Mengniu as the Buyer

#### *Subject Matter*

Pursuant to the Share Transfer Agreements, the Modern Farm conditionally agreed to sell, and the Buyer conditionally agreed to acquire the Sale Shares, subject to the terms and conditions as set out in the Share Transfer Agreements.

#### *Conditions*

The Completion of the Disposal shall take place on the Business Day when the Buyer completes the payment of the consideration in full, subject to the following conditions.

Within 90 days after the date of the Share Transfer Agreements, the both parties shall:

- (i) obtain the approval of the Independent Shareholders at the EGM of the Share Transfer Agreements and the Disposal;
- (ii) assist the Target Companies in the completion of the change in business registration procedures in the Disposal; and
- (iii) register the Buyer as the shareholders of the Target Companies and issue the certification of capital contribution to the Buyer.

#### *Consideration*

The aggregate consideration of the Disposal under the Share Transfer Agreements is RMB56.04 million, which was determined after arm's length negotiations between Modern Farm and the Buyer with reference to the valuation report ("**Valuation Report**") issued by Asia-Pacific Consulting and Appraisal Limited, an independent valuation firm appointed by Mengniu (the "**Valuer**").

The consideration shall be settled by the Buyer in full by cash within 15 Business Days after the date of completion of the change in business registration as set out in the Share Transfer Agreements.

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## LETTER FROM DONVEX CAPITAL LIMITED

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According to the Valuation Report, the valuation of the 100% equity interest of the Target Companies (the “**Equity Valuation**”) as at November 30, 2017 was RMB112,000,000 based on the assets-based approach adopted by the Valuer. The consideration of the Sale Shares of RMB56.04 million is equal to about 50% of the result of Equity Valuation.

For our due diligence purpose, we have reviewed (i) the engagement of the Valuer; (ii) the Valuer’s qualification and experience in relation to the preparation of the Valuation Report; and (iii) the due diligence measures adopted by the Valuer for conducting the Equity Valuation.

### Valuer

Based on the engagement letter and other relevant information provided by the Valuer, we are of the view that the Valuer is qualified and competent to conduct the Equity Valuation. The Valuer has also confirmed that they are independent to the Group and Mengniu Group.

### Valuation Assumptions

According to the Valuation Report, we note that the Valuer has made certain assumptions for the Equity Valuation, including:

- (i) there will be no major changes in the current operations of the Target Companies;
- (ii) there will be no major changes in the existing economic, industrial and regional policies for the Target Companies;
- (iii) there will be no material and adverse impact on the Target Companies caused by the force majeure;
- (iv) all unaudited financial information of the Target Companies provided is accurate and reliable;
- (v) there will no major change in the scope of business of the Target Companies;
- (vi) all necessary licenses and permits of use related to the buildings and land use rights have been obtained by the Target Companies;
- (vii) the buildings in the Equity Valuation will be properly maintained during the economic lifecycle; and
- (viii) in the event that further information on the Target Companies will be provided, the Valuer would reserve the rights to revise the result of the Equity Valuation.

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## LETTER FROM DONVEX CAPITAL LIMITED

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### Valuation Methodology

Based on the review of the Valuation Report and discussion with the Valuer, we note that the Valuer has considered the different valuation methodologies, i.e. market approach, income approach and asset-based approach for the Equity Valuation. However, the cross-check among those methodologies was not conducted as the asset-based approach is the only methodology suitable for the Equity Valuation comparing to the income approach and market approach, based on the following rationales:

#### Income Approach

The income approach refers to the valuation where the asset value is arrived through estimating the present value of the future returns of the appraised assets.

However, having considered that (i) the liquid milk business of the Target Company has been loss-making for the last two years resulting in a negative cash flow of the Group; and (ii) the Target Companies' operation capacity of liquid milk products has been significantly reduced, the Valuer is of the view that the future economic benefits and operational risks of the Target Companies could not be properly estimated and therefore the income approach is not applicable for the Equity Valuation.

#### Market Approach

The market approach refers to the valuation where the asset value is arrived by comparison of the market value of a similar comparable at the time near to the valuation date. However, as there are few transaction cases of companies with similar scale in the market and the case information, in terms of financial and operational, is not publicly available, the Valuer is of the view that the income approach is not applicable for the Equity Valuation.

Having considered that (i) all the facts as stated above; and (ii) the Target Companies are in an asset-heavy operational model, the Equity Valuation has been conducted by the Valuer in way of using the asset-based approach only.

Based on the Valuation Report, we also understand that the asset-based approach primarily involves the assessment of each of the assets and liabilities of the Target Companies with different valuation approaches based on the nature of each asset and liability. The details of the asset-based approach are set out as follows:

- (i) The asset-based approach has been applied for the valuation of current assets, current liabilities and non-current liabilities of the Target Companies;
- (ii) The cost approach has been applied for the valuation of property, plant and equipment of the Target Companies; and
- (iii) The market approach has been applied for the vehicle and land use right of the Target Companies.

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## LETTER FROM DONVEX CAPITAL LIMITED

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Based on the above, we are of view and concur with the Directors that (i) the assumptions adopted by the Valuer for the Equity Valuation is fair and reasonable; (ii) the asset-based approach adopted as the valuation methodology for the Equity Valuation in the Valuation Report is justifiable and reasonable as far as the Independent Shareholders are concerned; and (iii) the valuation of the 100% equity interest of the Target Companies as at November 30, 2017 of RMB112,000,000 is fair and reasonable.

### **3. Reasons for and benefits of entering into the Share Transfer Agreements**

The entering into the Share Transfer Agreements between the Modern Farm and the Buyer is mainly due to the following reasons:

- (i) According to the 2016 Annual Report and 2017 Interim Report, the net loss for the sales of liquid milk products of approximately RMB355.7 million and RMB306.2 million were incurred for the Group for FY2016 and HY2017 respectively, mainly due to the substantial costs in relation to the marketing of the liquid milk products and expansion on the distribution network of the Target Companies.

As discussed with the management of the Company, the Board is concerned that in the event that the performance of the Target Companies continues to deteriorate, it would be a burden to the Group's financial results, which may also result in a limitation on the Group's ability to expand its core business, i.e. dairy farm business and raw milk business.

As such, the Directors are of the view that the Disposal is beneficial to the Group after taking into account that the profitability of the Group could be enhanced as the financial results of the Target Companies will no longer be consolidated into the financial statements of the Group.

- (ii) As Mengniu has been a substantial shareholder of the Company since May 2013, the Buyer has been familiar with the operations of the liquid milk business and the standards of the liquid milk products of the Target Companies. In this regard, the Buyer would be able to manage the production of the liquid milk business of the Target Companies in a timely and cost-effective manner based on the demand in the market.

Besides, Mengniu is one of the leading dairy manufacturers in the PRC and has an extensive and well-established distribution network of milk products in the PRC market. Leveraging on the extensive distribution network and experience in marketing, the Buyer would quickly promote the liquid milk products of the Target Companies to the market. Accordingly, the sale volume of the liquid milk products is expected to be increased.



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## LETTER FROM DONVEX CAPITAL LIMITED

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As a result of the improvement in performance of Target Companies, the Group would also benefit from the additional income from the sale of liquid milk products as a result of its remaining 50% equity interest in the Target Companies.

- (iii) As advised by the management, the net proceeds to be raised from the Disposal of approximately HK\$56.04 million will be applied for (i) the general working capital of the Group and (ii) the repayment of the existing bank borrowings, which would reduce the interest burden of the Group and ultimately strengthen its financial position.

Based on the reasons and benefits as discussed above, we consider and concur with the Directors that (i) the terms of the Share Transfer Agreements and the Disposal are on commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, notwithstanding that the Disposal is not in the ordinary and usual course of business of the Group.

#### **4. Financial effect of the Disposal**

Upon Completion, the Target Companies will cease to be subsidiaries of the Company and therefore the financial results of the Target Companies will no longer be consolidated into the financial statements of the Group.

With reference to the consideration and the net asset value of the Target Companies as at November 30, 2017, it is expected that the Company will not record any significant gain or loss on the Disposal, which will be subject to audit.

As the Company intends to apply the partial net proceeds from the Disposal for the repayment of the interest-bearing borrowings of the Group, the debt ratio of the Group is expected to be decreased.

It should be noted that the aforementioned analysis is for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon Completion of the Disposal.

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## LETTER FROM DONVEX CAPITAL LIMITED

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### RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the terms of the Share Transfer Agreements and the Disposal are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, notwithstanding the Disposal is not in the ordinary and usual course of business of the Group. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend that the Independent Shareholders vote in favour of the resolution(s) to be proposed at the EGM to approve the Share Transfer Agreements and the Disposal.

Yours faithfully,  
For and on behalf of  
**Donvex Capital Limited**  
**Vily Leung**  
*Director*

*Ms. Vily Leung is a person licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and is a responsible officer of Donvex Capital Limited who has over 8 years of experience in corporate finance industry.*

**Brief Introduction**

The valuation was conducted by the Valuer as to the fair value of 100% shareholders' equity interests of the Target Companies to determine its fair value as of 30 November 2017 (the "Valuation Date").

**Basis of Value**

The valuation is conducted based on fair value, which represents "*the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction*".

**Basis of Valuation**

The valuation is carried out in accordance with the International Valuation Standards. In the process of valuation, the Valuer has collected all corresponding material objects and financial information and some significant assumptions, estimates and statements from the management of the Company as the evidence and support of Valuer's opinion on the valuation of subject assets.

**Valuation Assumptions**

- It is assumed that there are no significant changes in national macroeconomic policy, industrial policy and regional development policy after the Valuation Date;
- It is assumed that there is no force majeure to cause material adverse effect on the Target Companies after the Valuation Date;
- It is assumed that the financial information provided by Modern Farming (Group) Co., Ltd. (as seller) ("Modern Farming Group") are true and fair; that the financial information had been fully and truly reflected in the financial statements so provided and there are no unlisted assets or hidden liabilities such as unaccounted contingent liabilities and unaccounted tax payable;
- It is assumed that the scope of business of the Target Companies after the Valuation Date is consistent with the current one based on the existing management mode and management level.

**Source of Information**

In arriving at the assessment of the Target Companies, the Valuer has relied on the following information that was provided by the Company, as well as other publicly available information that the Valuer has gathered through research, including, but not limited to, the following:

- Management accounts of the Target Companies as at the Valuation Date provided by the Company;
- Historical financial and operational information related to Target Companies;
- Breakdown of assets of the Target Companies as at the Valuation Date;
- Other public information relating to the valuation.

**Valuation Approach and Valuation Process**

The Valuer has considered three common valuation approaches in the valuation process, namely, Market Approach, Income Approach and Asset-based Approach.

*Market Approach* values the business entity by comparing prices at which other assets of a similar nature changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to for an equally desirable alternative. It is worth noting that underlying assumptions attached to the value of assets used for comparison will cause that the data used will include certain implied assumptions. Further, this approach also relies on assumptions of efficient markets.

*Asset-based Approach* is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and is equal to the value of its invested capital. In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed. This money comes from investors who buy stocks of the business entity and investors who lend money to the business entity. After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operation, their sum equals the value of the business entity.

*Income Approach* focuses on the economic benefits due to the income producing capability of the business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the income approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

#### ***Selection of Valuation Approach***

The Valuer is aware of an ongoing sluggishness in the consumer market in China. Coupled with a shock arising from the imported liquid milk and the influx of reconstituted milk into the market, the Target Companies' Milk Product BU has suffered from losses for the last two years, leading to a sharp decline in its production capacity utilization and negative cash flow of the Group. The future economic benefits and operational risk of the Target Companies could not be properly estimated, therefore Income Approach is not applicable to the valuation.

In addition, as there are no sufficient comparable transactions or comparable companies in the market, it is considered that Market Approach is not applicable and Asset-based Approach is the most appropriate method for valuation of the Target Companies, that is, the appropriate valuation approach for each class of assets shall be based on the nature and status of each asset, which can also best reflect the current actual operation situation of the Target Companies. In assessing the fair value of assets and liabilities of the Target Companies, the Valuer has taken into account the nature and status of each class of assets and liabilities and have adopted the appropriate valuation approach.

#### **Limiting Conditions**

The valuation reflects facts and conditions existing at the Valuation Date. Subsequent events have not been considered and Valuer is not required to update the valuation report for such events and conditions.

To the best of Valuer's knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

Valuer has relied to a considerable extent on information provided by the management of the Company in arriving at their opinion of value. Valuer is not in the position to verify the accuracy of all information provided to them. However, Valuer has had no reason to doubt the truth and accuracy of the information provided to them and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to Valuer are accepted.

Valuer's conclusion of the fair value was derived from generally accepted valuation procedures and practices in accordance with the International Valuation Standards.

Neither the whole nor any part of the valuation report or any reference hereto may be included in any published document, circular or statement, or published in any way, without our prior written approval of the form and context in which it may appear.

Finally and in accordance with Valuer's standard practice, Valuer must state that the valuation report and valuation are for the exclusive use only of the addressee and for the purpose stated herein. No responsibility is accepted to any third party for the whole or any part of its contents.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”), to be notified to the Company and the Stock Exchange.

Name of Director	Nature of interest	Number of Shares or underlying Shares	Approximate percentage of shareholding interest
Ms. GAO Lina <sup>(1)</sup>	Interest in controlled corporation	221,581,733 <sup>(1)</sup>	3.61%
	Beneficial owner	38,077,916 <sup>(2)</sup>	0.62%
Mr. HAN Chunlin	Beneficial owner	23,628,916 <sup>(3)</sup>	0.39%

(1) As Ms. GAO Lina holds approximately 49.12% of the interests in Jinmu Holdings Co. Ltd., she is deemed to be interested in the 221,581,733 Shares held by Jinmu Holdings Co. Ltd. under the SFO.

(2) This represent 8,801,000 Shares and interests in the 29,276,916 underlying Shares of the share options of the Company granted by the Company.

(3) This represent 1,975,000 Shares and interests in the 21,653,916 underlying Shares of the share options of the Company granted by the Company.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### SHARE OPTIONS

As at the Latest Practicable Date, the following share options were outstanding:

Name of grantee	Date of grant	Number of underlying Shares	Exercise price HK\$
Ms. GAO Lina	October 31, 2010	29,276,916	0.86
Mr. HAN Chunlin	October 31, 2010	21,653,916	0.86

These options are exercisable during the period commencing from November 26, 2010 (the date of listing of the Company on the Stock Exchange) until 10 years from the date of offer. No share option was granted, cancelled, lapsed or exercised as at the Latest Practicable Date.

As at the Latest Practicable Date, the number of Shares to be issued upon the exercise of the outstanding options was 50,930,832 Shares, representing 0.83% of the issued share capital of the Company as at the Latest Practicable Date.

### SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to any Directors or chief executive of the Company, the persons (other than a Director or chief executive of the Company): (a) who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or (b) who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Company or any other members of the Group, were as follows:

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding interest
China Mengniu Dairy Company Limited	Beneficial interest	Long position: 1,317,903,000 <sup>(1)</sup>	21.49%
	Interest in controlled corporation	Long position: 2,407,866,412 <sup>(2)</sup>	39.27%



Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding interest
Future Discovery Limited	Beneficial interest	Long position: 2,407,866,412 <sup>(2)</sup>	39.27%
Central Huijin Investment Ltd.	Interest in “other” capacity under Part XV of the SFO	Long position: 363,903,000	5.94%
		Short position: 689,438,782	11.24%
	Interest in controlled corporation (through BOCI Financial Products Limited)	Long position: 325,535,782	5.31%
		Long position: 1,500,000	0.02%
Bank of China Limited	Interest in “other” capacity under Part XV of the SFO	Long position: 363,903,000	5.94%
		Short position: 689,438,782	11.24%
	Interest in controlled corporation (through BOCI Financial Products Limited)	Long position: 325,535,782	5.31%
		Long position: 1,500,000	0.02%

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding interest
BOC International Holdings Limited	Interest in “other” capacity under Part XV of the SFO	Long position: 363,903,000	5.94%
		Short position: 689,438,782	11.24%
	Interest in controlled corporation (through BOCI Financial Products Limited)	Long position: 325,535,782	5.31%
BOCI Financial Products Limited	Beneficial interest	Long position: 325,535,782	5.31%
	Interest in “other” capacity under Part XV of the SFO	Long position: 363,903,000	5.94%
		Short position: 689,438,782	11.24%

(1) Among which up to 689,438,782 Shares have been lent to BOCI Financial Products Limited pursuant to a securities lending agreement dated May 18, 2017 entered into between Mengniu as lender and BOCI Financial Products Limited as borrower.

(2) The interests refer to the same parcel of underlying Shares.

Save as disclosed herein, there was no person known to any Directors or chief executive of the Company, who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Company or any other member of the Group.

#### DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group, other than service contracts expiring or terminable by the relevant member of the Group within one year without payment of compensation other than statutory compensation.

**DIRECTORS' INTERESTS IN CONTRACT OR ARRANGEMENT**

Mr. LU Mingfang, Mr. WOLHARDT Julian Juul, Mr. ZHANG Ping and Mr. WEN Yongping, all being the non-executive Directors, are either holding senior positions at or being directors of Mengniu. As such, each of Mr. LU Mingfang, Mr. WOLHARDT Julian Juul, Mr. ZHANG Ping and Mr. WEN Yongping is considered to have material interests in the Share Transfer Agreements and has abstained from voting on the Board resolutions approving the the Share Transfer Agreements. Other than Mr. LU Mingfang, Mr. WOLHARDT Julian Juul, Mr. ZHANG Ping and Mr. WEN Yongping, no Director has a material interest in the Share Transfer Agreements. Save as the aforesaid, none of the Directors was materially interested in any contract or arrangement subsisting as at the date thereof and which was significant in relation to the business of the Group as at the Latest Practicable Date.

**DIRECTORS' INTERESTS IN ASSETS**

None of the Directors had any interest, direct or indirect, in any assets which have been since December 31, 2016, being the date to which the latest published audited financial statements of the Group were compiled, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group as at the Latest Practicable Date.

**DIRECTORS' INTERESTS IN COMPETING BUSINESS**

The Directors named in the paragraphs below have interests in businesses, which are considered to compete or likely to compete, either directly or indirectly, with the businesses of the Group as at the Latest Practicable Date.

As at the Latest Practicable Date, Mr. LU Minfang is an executive director and chief executive officer of Mengniu. Mr. ZHANG Ping is a 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. Mengniu is a substantial shareholder of the Company and is engaged in the dairy industry.

The above-mentioned competing business is managed by separate entities with independent management and administration. The Directors are of the view that the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of these entities. When making decisions, the relevant Director, in performance of his duty as Director, have acted and will continue to act in the best interests of the Group.

Save as disclosed above, none of the Directors or their respective associates had any interest in any company or business which competes or may compete with the business of the Group as at the Latest Practicable Date.

### 3. MATERIAL ADVERSE CHANGE

As disclosed in the Company's announcement dated January 30, 2018 (the "**Profit Warning Announcement**"), based on the assessment of the projected unaudited consolidated management accounts of the Group for the year ended December 31, 2017 (the "**Management Accounts**"), it is expected that the Group will record a consolidated net loss attributable to the owners of the Company of not less than RMB900 million (audited consolidated net loss attributable to the owners of the Company for the year ended December 31, 2016: approximately RMB742 million) for the year ended December 31, 2017, mainly attributable to:

- (i) In view of the termination of direct dealership with distributors for the liquid milk products, the Group expects the settlement of the relevant trade receivables due from these distributors will be deferred and the trade receivables may not be fully recoverable. It is estimated that the historical one-off, non-cash impairment loss thereby amounted to approximately RMB500 million.
- (ii) the market price for raw milk in China stayed at a relatively low level in 2017 comparing with last year. The selling price of raw milk of the Company reduced by approximately 4% in 2017 comparing with last year; and
- (iii) a non-cash loss arising from the cancellation of share options granted by the Company to the management following the closing of the mandatory cash offer made by China Mengniu Dairy Company Limited to acquire all the issued shares, and to cancel all the outstanding options in the Company on March 21, 2017.

The information contained in the Project Warning announcement was based on the management's preliminary assessment after reviewing the Management Accounts and is not based on any financial figures or information which have been audited or reviewed by the Company's auditor or valuer.

Save as disclosed above, the Directors were not aware of any material adverse change in the financial or trading position of the Group since December 31, 2017, being the date to which the latest published audited financial statements of the Group were made up.

### 4. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries have been engaged in any litigation or claims of material importance and, so far as the Directors are aware, there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

### 5. EXPERT AND CONSENT

The following are the qualifications of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Donvex Capital Limited	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Donvex Capital:

- (a) had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they appear;
- (b) did not have any direct or indirect interest in any assets which had since December 31, 2016, being the date which the latest published audited financial statements of the Group were made up, been acquired or disposed of by or leased to, or which were proposed to be acquired or disposed of by or leased to, any member of the Group; and
- (c) was not beneficially interested in the share capital of any member of the Group, nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

## 6. GENERAL

- (a) The registered office of the Company is Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is at Room A, 32nd Floor, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong.
- (c) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The company secretary of the Company is Mr. Li Kwok Fat, who is a member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants, and is a member of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.
- (e) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.
- (f) All references to times in this circular refer to Hong Kong times.

## 7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on Monday to Friday (other than public holidays) at the head office and principal place of business of the Company in Hong Kong at Suites Room A, 32nd Floor, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the Share Transfer Agreements;

- (c) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 13 of this circular;
- (d) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 14 to 24 of this circular;
- (e) the written consent referred to in the section headed “Expert and Consent” in this appendix;
- (f) the annual reports of the Company for the years ended December 31, 2015 and 2016; and
- (g) a copy of this circular.

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## NOTICE OF EGM

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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)**

#### **NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**Meeting**”) of the shareholders of China Modern Dairy Holdings Ltd. (the “**Company**”) will be held at Marina Room II, 2/F., The Excelsior Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Friday, March 2, 2018 at 10:00 a.m., for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolution as an ordinary resolution of the Company:

#### **ORDINARY RESOLUTION**

**“THAT:**

- (a) the Share Transfer Agreements (as defined in the circular of the Company dated February 12, 2018, hereinafter referred to as the “**Circular**”) entered into between Modern Farming (Group) Co., Ltd. (現代牧業(集團)有限公司) as seller and Inner Mongolia Mengniu Dairy (Group) Company Limited (內蒙古蒙牛乳業(集團)股份有限公司) as buyer dated January 22, 2017 (a copy of which is tabled at the Meeting and marked “A” and initialed by the chairman of the Meeting for identification purpose) in relation to the Disposal (as defined in the Circular) be and are hereby approved, ratified and confirmed;
- (b) the board of directors of the Company be and is hereby authorized to take all such actions as it considers necessary or desirable to implement and give effect to the Share Transfer Agreements and the implementation on of all the transactions contemplated thereunder including, without limitation, the Disposal.”

By order of the board of  
**China Modern Dairy Holdings Ltd.**  
**LU Minfang**  
*Chairman*

Hong Kong, February 12, 2018

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## NOTICE OF EGM

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*Notes:*

1. Any member of the Company entitled to attend and vote at the Meeting by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy needs not be a member of the Company.
2. In order to be valid, a proxy form and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at 17M, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjournment thereof.
3. Completion and return of the proxy form will not preclude any member from attending and voting in person at the Meeting or any adjourned Meeting should he so wish.
4. In case of joint shareholding, the vote of the senior joint shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint shareholder(s) and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint shareholding.
5. Shareholders whose names appear on the register of members of the Company on Friday, March 2, 2018 are entitled to attend and vote at the Meeting. The register of members of the Company will be closed from Thursday, March 1, 2018 to Friday, March 2, 2018, both days inclusive, and during such period no share transfer will be registered. In order to qualify for voting at the Meeting convened by the above notice, properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at 17M, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Wednesday, February 28, 2018, for registration.
6. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.

\* *for identification purpose only*