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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)

VOLUNTARY ANNOUNCEMENT
LETTER OF INTENT ON COOPERATION FRAMEWORK
WITH CITIC ENVIRONMENT

This announcement is made voluntarily by China Modern Dairy Holdings Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”).

INTRODUCTION

Whilst steadily operating its sustainable core business, the Company intends to consolidate and dispose certain energy assets of the Group in order to promote the utilization efficiency of energy assets, as well as maximizing the assets production capacity without compromising the current operations. In this regard, the board of directors (the “**Board**”) of the Company is pleased to announce that, after in-depth research and various rounds of negotiations, CITIC Environment Investment Group Co., Ltd. and one of its subsidiaries (together, “**CITIC Environment**”) entered into a letter of intent on cooperation framework (the “**Letter of Intent**”) with Modern Farming (Group) Co., Ltd. (“**Modern Farming**”), a subsidiary of the Company, on 28 September 2018 (after trading hours), in relation to the proposed establishment of a joint venture to jointly invest on the transformation and operation of certain energy assets of the Group (the “**Proposed Transaction**”).

The Letter of Intent is only an indicative statement of mutual intention of cooperation between the parties, which is neither legally binding nor creates any rights or obligations, except for the confidentiality and exclusivity provisions. Any binding commitments by the parties in relation to the Proposed Transaction will be subject to the completion of negotiations between the parties and the signing of definitive documents as and when appropriate.

COOPERATION ASSETS

The Group places huge importance to eco-friendly production and epidemic control of farms, each farm of which is equipped with manure anaerobic fermentation system. Passing through plug flow reactor for anaerobic fermentation is the principal manure treatment. Biogas produced during fermentation is deployed for power generation and steam production. Biogas residues after drying are used as beds in cowsheds, while biogas slurry is partially returned to cowsheds and the remaining biogas slurry will be reused as organic fertilizers.

The Group intends to dispose the energy assets from certain of its subsidiaries (the “**Cooperation Assets**”) to the proposed joint venture which is to be established by Modern Farming and CITIC Environment. The Cooperation Assets will include assets in relation to the aforesaid anaerobic fermentation, power generation, heat supply and drying of biogas residues, but will not include manure collection and biogas slurry.

COOPERATION ARRANGEMENT

Pursuant to the Letter of Intent, the parties agreed to form a joint venture in order to specifically implement the Proposed Transaction. Modern Farming will hold the joint venture as to 30% through a special purpose vehicle company, and CITIC Environment or its designated entity will hold the joint venture as to 70%.

In the meantime, the parties will use their best endeavours to enter into a formal joint venture agreement, shareholders agreement, articles of association and relevant agreements in respect of the establishment of proposed joint venture within 4 months upon the signing of the Letter of Intent, or if the Cooperation Assets are transferred into a proposed joint venture within that period, CITIC Environment will enter into the relevant agreements with Modern Farming for subscription of an agreed number of shares in the joint venture.

EXCLUSIVITY PERIOD

The Cooperation Assets as stated in Letter of Intent are for exclusive cooperation. From the date of signing the Letter of Intent to 31 December 2018 (both dates inclusive) (the “**Exclusivity Period**”), Modern Farming agrees to carry out the relevant project cooperation with respect to the Cooperation Assets with CITIC Environment exclusively, and undertakes not to approach any other parties in respect of the Cooperation Assets during the Exclusivity Period.

BACKGROUND OF CITIC ENVIRONMENT

CITIC Environment, a wholly-owned subsidiary of CITIC Corporation Limited (“**China CITIC**”, together with its subsidiaries, referred to as “**CITIC Group**”), was established in May 2008 and formerly known as CITIC Environmental Protection Co., Ltd.* (中信環保股份有限公司). As the only energy-saving and environmental protection flagship platform of CITIC Group, CITIC Environment has been committed to promoting energy-saving and environmental protection technology advancement and industrial upgrading since its establishment, focusing on urban energy-saving and environmental protection infrastructure, industrial energy-saving and emission reduction, clean technology and new energy business.

A series of effective explorations and efforts have been made in the fields of comprehensive management of water treatment and water environment, domestic waste incineration, solid waste and hazardous waste disposal, energy conservation and emission reduction, and resources recycling. The Proposed Transaction is implemented in collaboration with an industrial fund management firm under CITIC Environment.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of CITIC Group, CITIC Environment and China CITIC and their respective ultimate beneficial owner(s) are third parties independent of the Company or any of its subsidiaries or any of their respective directors, chief executive or substantial shareholder or any of their respective associates (has the meaning ascribed thereto under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**")).

REASONS FOR AND BENEFITS OF THE PROPOSED TRANSACTION

In response to the requirements under relevant documents including the "Opinions of the General Office of the State Council on Accelerating the Utilization of Livestock and Poultry Waste Resources" (《國務院辦公廳關於加快推進畜禽養殖廢棄物資源化利用的意見》) (Guo Ban Fa [2017] No. 48) issued by the General Office of the State Council and the "Main Tasks of Animal Husbandry in 2018" (《2018畜牧業工作要點》), the "Opinions on Accelerating Agricultural Transformation and Upgrading" (《關於加快推進農業轉型升級的意見》) and the "Measures for Assessment of Resources Utilization of Livestock and Poultry Wastes" (《畜禽養殖廢棄物資源化利用工作考核辦法》) issued by Ministry of Agriculture and Rural Affairs and leveraging on the expertise, experience and resources of CITIC Environment in modern agriculture industry, the Proposed Transaction will improve the resources utilization efficiency of livestock and poultry waste, which in turn helps the Group to activate idle resources and enhance liquidity. In order to further expand and deepen the cooperation and achieve complementary advantages and win-win development, the parties will jointly contrive this benchmark project for the agri-environment segment without compromising the production and operation requirements of Modern Farming, promote the industrial upgrading of manure treatment in the field of agri-environment and set an innovative model in the field of agri-environment.

For the reasons above, the Directors consider that the entry into the Letter of Intent and the Proposed Transaction are in the interests of the Company and its shareholders as a whole.

GENERAL

The Letter of Intent contains legally binding obligations regarding exclusivity and confidentiality. However, other terms contained in the Letter of Intent are not legally binding. The definitive terms of the Proposed Transaction are yet to be agreed upon by the parties.

Should the Proposed Transaction (if materialize) constitute a notifiable transaction for the Company, further announcement in relation to the Proposed Transaction will be made by the Company as and when appropriate in accordance with the Listing Rules.

The Board wishes to emphasize that, as at the date of this announcement, the Company has not entered into any legally binding agreement in respect of the Proposed Transaction (except for the exclusivity and confidentiality during the Exclusivity Period under the Letter of Intent). As the Proposed Transaction may or may not be materialized, shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

On behalf of the Board
China Modern Dairy Holdings Ltd.
LU Minfang
Chairman

Hong Kong, 28 September 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 purposes only*