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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)

CONNECTED TRANSACTION

The Directors of the Company announces that on December 7, 2011, Modern Farm, a non-wholly owned subsidiary of the Company, made a capital contribution of RMB13.5 million in Qiushi for 18% of the equity interests in Qiushi.

Qiushi was established in the PRC in September 2011 and is principally engaged in planting and sale of forage grass. Qiushi is currently growing its pastures and expects to commence selling forage grass later this year. The Directors consider that Qiushi will enter into a growth stage and the Company will benefit in the long run by investing in Qiushi.

Qiushi's pastures are located in Anhui Province, which are in close proximity to the dairy farms of the Group in the same area. The relevant members of the Group may consider purchasing the forage grass to be supplied by Qiushi in the future to save transportation costs. If they choose to do so, the Directors consider that the Group will be in a better position to procure high quality forage grass from Qiushi in light of the Investment.

Ms. Deng and Mr. Qi have undertaken to Modern Farm that if Qiushi records a substantial loss for the financial year ending December 31, 2012, Modern Farm is entitled to transfer its equity interests in Qiushi to Ms. Deng and Mr. Qi for RMB13.5 million.

Qiushi is a connected person of the Company under Rule 14A.11(4) of the Listing Rules as Ms. Deng, the child of Mr. Deng Jiuqiang, an executive Director and the Chairman of the Company, can exercise more than 50% of the voting power at general meetings of Qiushi. As the applicable percentage ratios (as defined in Chapter 14 of the Listing Rules) of the Investment are more than 0.1% but less than 5%, the Investment is exempt from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules.

The board (the “**Board**”) of directors (the “**Directors**”) of China Modern Dairy Holdings Ltd. (the “**Company**”) announces that on December 7, 2011, 現代牧業(集團)有限公司 (Modern Farming (Group) Co., Ltd.) (“**Modern Farm**”), a non-wholly owned subsidiary of the Company, made a capital contribution of RMB13.5 million in 秋實草業有限公司 (Qiushi Grass Industry Co. Ltd.) (“**Qiushi**”) for 18% of the equity interests in Qiushi (the “**Investment**”).

Nature of Qiushi and the Investment

Qiushi was incorporated in the PRC as a limited liability company on September 30, 2011. At the date of this announcement, the registered capital of Qiushi is RMB75 million and its equity interests are owned by the following parties:

	Registered Capital (RMB)	Percentage of Equity Interests
鄧源 (Deng Yuan) (“ Ms. Deng ”) ⁽¹⁾	47.5million	63.33%
亓小航 (Qi Xiaohang) (“ Mr. Qi ”) ⁽²⁾	10million	13.33%
岳微 (Yue Wei)	2million	2.67%
王曉 (Wang Xiao)	2million	2.67%
Modern Farm	<u>13.5million</u>	<u>18%</u>
Total	<u><u>75million</u></u>	<u><u>100%</u></u>

Notes:

- (1) Ms. Deng is the daughter of Mr. Deng Jiuqiang, an executive Director and the Chairman of the Company.
- (2) Mr. Qi is the son of Ms. Gao Lina, an executive Director and the Chief Executive Officer of the Company.
- (3) Both Mr. Deng Jiuqiang and Ms. Gao Lina abstained from voting on the board resolutions of Modern Farm to approve the Investment due to their interests as referred to in Notes (1) and (2) above.

The amount of Investment was determined with reference to the amount of registered capital of Qiushi. The Directors, including the independent non-executive Directors, believe that the Investment is fair and reasonable and in the interests of the shareholders of the Company as a whole.

Business of Qiushi and Reasons for the Investment

Qiushi was established in the PRC in September 2011 and is principally engaged in planting and sale of forage grass. Qiushi is currently growing its pastures and expects to commence selling forage grass later this year. The Directors consider that Qiushi will enter into a growth stage and the Company will benefit in the long run by investing in Qiushi.

Qiushi's pastures are located in Anhui Province, which are in close proximity to the dairy farms of the Company and its subsidiaries (the "**Group**") in the same area. The relevant members of the Group may consider purchasing the forage grass to be supplied by Qiushi in the future to save transportation costs. If they choose to do so, the Directors consider that the Group will be in a better position to procure high quality forage grass from Qiushi in light of the Investment.

Ms. Deng and Mr. Qi have undertaken to Modern Farm that if Qiushi records a substantial loss for the financial year ending December 31, 2012, Modern Farm is entitled to transfer its equity interests in Qinshi to Ms. Deng and Mr. Qi for RMB13.5 million.

Information on the Company

The Company is the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China according to the China Dairy Association.

Information on Modern Farm

Modern Farm is an indirect non-wholly owned subsidiary of the Company and is an investment holding company of its subsidiaries which are principally engaged in operating dairy farms and production and sale of raw milk in the PRC. As at the date of this announcement, the Company indirectly owns approximately 97.87% of the equity interests in Modern Farm.

Listing Rules Implications

Qiushi is a connected person of the Company under Rule 14A.11(4) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as Ms. Deng, the child of Mr. Deng Jiuqiang, an executive Director and the Chairman of the Company, can exercise more than 50% of the voting

power at general meetings of Qiushi. As the applicable percentage ratios (as defined in Chapter 14 of the Listing Rules) of the Investment are more than 0.1% but less than 5%, the Investment is exempt from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules.

On behalf of the Board
China Modern Dairy Holdings Ltd.
DENG Jiuqiang
Chairman

Hong Kong, 20 January 2012

As of the date of this announcement, the executive Directors are Mr. DENG Jiuqiang, Ms. GAO Lina, Mr. HAN Chunlin, the non-executive Directors are Mr. WOLHARDT Julian Juul, Mr. HUI Chi Kin Max and Mr. LEI Yongsheng, the independent non-executive Directors are Prof. LI Shengli, Prof. GUO Lianheng and Mr. LEE Kong Wai Conway.