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MODERN FARMING
现代牧业

China Modern Dairy Holdings Ltd.

中國現代牧業控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1117)

**CONTINUING CONNECTED TRANSACTION
RENEWED FRAMEWORK SUPPLY AGREEMENT WITH FUYUAN**

On December 31, 2019 (after trading hours), Modern Farming (an indirect non-wholly owned subsidiary of the Company) entered into the Renewed Framework Supply Agreement with Fuyuan (a connected person of the Company) to renew the terms of the Existing Framework Supply Agreement (as amended by the Amendment Agreement) in relation to the supply of Feedstuffs by Fuyuan to the Modern Farming Group.

As at the date of this announcement, Fuyuan is a company which is indirectly owned as to 43.35% by Mengniu, a substantial shareholder of the Company holding approximately 58.15% of the issued share capital of the Company. Fuyuan is an associate of Mengniu and therefore a connected person of the Company. Modern Farming is an indirect non-wholly owned subsidiary of the Company. Accordingly, the transactions contemplated under the Renewed Framework Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Renewed Framework Supply Agreement and the transactions contemplated thereunder are more than 0.1% but less than 5%, the Renewed Framework Supply Agreement and the transactions contemplated thereunder are subject to the reporting, annual review and announcement requirements but are exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

References are made to the announcements of the Company dated June 16, 2017 and November 28, 2017 in relation to, among other things, the Existing Framework Supply Agreement and the Amendment Agreement. As the Existing Framework Supply Agreement (as amended by the Amendment Agreement) is due to end on December 31, 2019 and the Company wishes to continue the transactions thereunder, on December 31, 2019 (after trading hours), Modern Farming (an indirect non-wholly owned subsidiary of the Company) entered into the Renewed Framework Supply Agreement with Fuyuan (a connected person of the Company) to renew the terms of the Existing Framework Supply Agreement (as amended by the Amendment Agreement) in relation to the supply of Feedstuffs by Fuyuan to the Modern Farming Group.

THE RENEWED FRAMEWORK SUPPLY AGREEMENT

The principal terms of the Renewed Framework Supply Agreement are as follows:

- Date : December 31, 2019 (after trading hours)
- Parties : (1) Modern Farming as purchaser; and
(2) Fuyuan as supplier.
- Duration : For a term commencing from January 1, 2020 to December 31, 2022.
- Subject matter : The Modern Farming Group agrees to purchase, and the Fuyuan Group agrees to supply and deliver to designated farms of the Modern Farming Group, Feedstuffs which (i) meet the quality requirements of the Modern Farming Group; (ii) comply with PRC national and local laws and regulations; and (iii) shall be free from mildew, adulteration and contamination.
- Price : The price payable by the Modern Farming Group to the Fuyuan Group shall be determined by reference to the lowest quoted price at which the Modern Farming Group could obtain the same type of Feedstuffs from independent third parties (whether local or overseas). For this purpose, the Modern Farming Group will seek quotations from at least two independent parties offering the same type of Feedstuffs each time.

HISTORICAL TRANSACTION AMOUNTS, ANNUAL CAPS AND BASIS OF DETERMINATION

Historical transaction amounts

The historical transaction amounts paid by the Modern Farming Group to Fuyuan under the Existing Framework Supply Agreement are as follows:

	From June 16, 2017, being the effective date of the Existing Framework Supply Agreement (as amended by the Amendment Agreement), to December 31, 2017 <i>RMB'000</i>	From January 1, 2018 to December 31, 2018 <i>RMB'000</i>	From January 1, 2019 to November 30, 2019 <i>RMB'000</i>
Amount	106,519	65,217	71,384

Annual caps and basis of determination

The annual caps in respect of the transactions contemplated under the Renewed Framework Supply Agreement are as follows:

	From the effective date of the Renewed Framework Supply Agreement to December 31, 2020 <i>RMB'000</i>	From January 1, 2021 to December 31, 2021 <i>RMB'000</i>	From January 1, 2022 to December 31, 2022 <i>RMB'000</i>
Annual cap	150,000	180,000	210,000

The annual caps were determined with reference to (i) the historical transaction amounts between the Modern Farming Group and Fuyuan under the Existing Framework Supply Agreement; (ii) the average market price of Feedstuffs; and (iii) the average anticipated growth of the Modern Farming Group's demand for Feedstuffs at a rate of 5% increase per year taking into account the life cycle of production and sales, and the growth of herd size of approximately 10,000 to 20,000 dairy cows per year. As there is neither any government-prescribed price nor government-guidance price in respect of Feedstuffs, the average market price is determined with reference to the publicly available information in the market and is estimated to increase at a rate of 3% per year taking into account the inflation rate and other applicable economic indicators.

REASONS FOR AND BENEFITS OF ENTERING INTO THE RENEWED FRAMEWORK SUPPLY AGREEMENT

The Company requires a large amount of high quality Feedstuffs for its dairy cows, which provide a key source of nutrition for the dairy cows and directly affect the quality of milk and yield of milk production, while Fuyuan is a sizable and reputable feed supplier which perfectly meets with our requirements. As such, on June 16, 2017, Modern Farming entered into the Existing Framework Supply Agreement (as amended by the Amendment Agreement) with Fuyuan in relation to the supply of Feedstuffs by Fuyuan to the Modern Farming Group.

The Company has entered into the Renewed Framework Supply Agreement given that the Existing Framework Supply Agreement (as amended by the Amendment Agreement) is due to end on December 31, 2019 and the Company wishes to ensure the continuous and stable supply of Feedstuffs with quality after its expiry.

The Directors (including the independent non-executive Directors) consider that the Renewed Framework Supply Agreement was entered into in the ordinary course of business of the Company and on normal commercial terms, and the terms thereof are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

As at the date of this announcement, (i) Mr. LU Minfang, a non-executive Director and the chairman of the Board, is also an executive director and the chief executive officer of Mengniu; (ii) Mr. WOLHARDT Julian Juul, a non-executive Director, is also an independent non-executive director of Mengniu; (iii) Mr. ZHANG Ping, a non-executive Director, is also the chief financial officer of Mengniu; and (iv) Mr. ZHAO Jiejun, a non-executive Director, is also the assistant vice president and general manager of milk sources business department of Mengniu. Accordingly, each of Mr. LU Minfang, Mr. WOLHARDT Julian Juul, Mr. ZHANG Ping and Mr. ZHAO Jiejun is considered to have a material interest in the Renewed Framework Supply Agreement and has abstained from voting on the relevant board resolutions approving the Renewed Framework Supply Agreement.

INFORMATION ON THE PARTIES

(1) The Group

The Group is the largest dairy farm operator and fresh raw milk producer in the PRC in terms of herd size and milk yield. It operates 26 dairy farms in the PRC with over 230,000 dairy cows and an annual milk yield of over 1.3 million tons. The Company initiated the production mode of “zero-distance integration of forage grass planting, cow breeding and milk processing within two hours” which is the first and only enterprise at present in the PRC that applies integration of forage grass planting, cow breeding and milk processing, and qualified with SGS certification by Société Générale de Surveillance S.A.

(2) Modern Farming

Modern Farming is an indirect non-wholly owned subsidiary of the Company and is principally engaged in operating dairy farms, production and sale of raw milk in the PRC. As at the date of this announcement, the Company indirectly owns 98.18% of the equity interest in Modern Farming.

(3) Fuyuan

Fuyuan was established in the PRC in February 2012 and is principally engaged in planting of forage grass, dairy farming, breeding and livestock research and training. As at the date of this announcement, Mengniu indirectly owns 43.35% of the equity interest in Fuyuan.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Fuyuan is a company which is indirectly owned as to 43.35% by Mengniu, a substantial shareholder of the Company holding approximately 58.15% of the issued share capital of the Company. Fuyuan is an associate of Mengniu and therefore a connected person of the Company. Modern Farming is an indirect non-wholly owned subsidiary of the Company. Accordingly, the transactions contemplated under the Renewed Framework Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the Renewed Framework Supply Agreement and the transactions contemplated thereunder are more than 0.1% but less than 5%, the Renewed Framework Supply Agreement and the transactions contemplated thereunder are subject to the reporting, annual review and announcement requirements but are exempt from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“Amendment Agreement”	the amendment agreement to the Existing Framework Supply Agreement dated November 28, 2017 entered into between Modern Farming and Fuyuan in relation to the amendment of certain terms of the Existing Framework Supply Agreement
“associate(s)”, “connected person(s)”, “percentage ratio(s)”, “subsidiary(ies)”, “substantial shareholder(s)”	each has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	China Modern Dairy Holdings Ltd., a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 1117)
“Directors”	the directors of the Company
“Existing Framework Supply Agreement”	the framework supply agreement dated June 16, 2017 entered into between Modern Farming and Fuyuan in relation to the supply of Feedstuffs by Fuyuan to the Modern Farming Group
“Feedstuffs”	feedstuffs for dairy cows
“Fuyuan”	內蒙古富源國際實業有限公司 (Inner Mongolia Fuyuan International Industrial Corporation Limited), a limited liability company established in the PRC in February 2012 and a connected person of the Company

“Fuyuan Group”	Fuyuan and its subsidiaries
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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 issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 2319), and a substantial shareholder of the Company
“Modern Farming”	現代牧業(集團)有限公司 (Modern Farming (Group) Co., Ltd.), a sino-foreign investment enterprise established in the PRC and an indirect non-wholly owned subsidiary of the Company
“Modern Farming Group”	Modern Farming and its subsidiaries
“PRC”	the People’s Republic of China which, for the purposes of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Renewed Framework Supply Agreement ”	the framework supply agreement dated December 31, 2019 entered into between Modern Farming and Fuyuan in relation to the supply of Feedstuffs by Fuyuan to the Modern Farming Group, as more particularly described in the section headed “The Renewed Framework Supply Agreement” in this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	shareholders of the Company

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“%”

per cent.

The English names of the PRC entities are literal translations of their Chinese names and are included for identification purpose only.

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

Hong Kong, December 31, 2019

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 (Chairman), Mr. WOLHARDT Julian Juul, Mr. ZHANG Ping and Mr. ZHAO Jiejun, and the independent non-executive Directors are Mr. LI Shengli, Mr. LEE Kong Wai Conway and Mr. KANG Yan.

* *For identification purpose only*