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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)

DISCLOSEABLE TRANSACTION

FORMATION OF THE JV COMPANY AND DISPOSAL OF TWO TARGET COMPANIES

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Reference is made to the announcement of Company dated September 28, 2018 regarding the entry into a letter of intent by Modern Farming with CITIC Environment in relation to the proposed establishment of a joint venture to jointly invest in the transformation and operation of certain energy-producing assets of the Group.

On August 23, 2019, Modern Farming and Jiangsu Agriculture, an entity designated by CITIC Environment, entered into the JV Agreement in relation to the Formation of the JV Company. The JV Company is held as to 30% by Modern Farming and 70% by Jiangsu Agriculture and is established with the total registered capital of RMB560,000,000.

The Board is pleased to announce that on December 31, 2019, Modern Farming entered into two Share Transfer Agreements with the JV Company in relation to the Disposal of Two Target Companies at an aggregate consideration of RMB148,124,000.

LISTING RULES IMPLICATIONS

As all of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Formation of the JV Company are less than 5%, the Formation of the JV Company, per se, does not constitute a discloseable transaction for the Company under the Listing Rules. As the Formation of the JV Company, the Disposal of Two Target Companies and the grant of the Special Options are related and are expected to complete within a 12-month period, the Formation of the JV Company, the Disposal of Two Target Companies and the grant of the Special Options will be aggregated as a series of transactions pursuant to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Disposal of Two Target Companies and grant of the Special Options, when aggregated with the Formation of the JV Company, are more than 5% but less than 25%, the transactions contemplated under the JV Agreement and the Share Transfer Agreements constitute discloseable transactions for the Company under the Listing Rules and are therefore subject to the reporting and announcement requirements as set out in Chapter 14 of the Listing Rules.

As completion of the Disposal of Two Target Companies is subject to and conditional upon fulfilment of the conditions precedent set out in the respective Share Transfer Agreements and the transactions contemplated thereunder may or may not proceed to completion. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares of the Company.

A. INTRODUCTION

Formation of the JV Company

Reference is made to the announcement of Company dated September 28, 2018 regarding the entry into a letter of intent by Modern Farming with CITIC Environment in relation to the proposed establishment of a joint venture to jointly invest in the transformation and operation of certain energy-producing assets of the Group.

On August 23, 2019, Modern Farming and Jiangsu Agriculture, an entity designated by CITIC Environment, entered into the JV Agreement in relation to the Formation of the JV Company. The JV Company is held as to 30% by Modern Farming and 70% by Jiangsu Agriculture and is established with the total registered capital of RMB560,000,000.

Disposal of Two Target Companies

To prepare for the cooperation with CITIC Environment, Modern Farming has incorporated two wholly-owned special purpose vehicles in the PRC, namely Target Company 1 and Target Company 2. Certain energy-producing assets were spun off from two wholly-owned farming companies under Modern Farming and injected into the special purpose vehicles.

On December 31, 2019, Modern Farming entered into the Share Transfer Agreements with the JV Company, pursuant to which Modern Farming conditionally agrees to sell, and the JV Company conditionally agrees to acquire the entire equity interests in Target Company 1 and Target Company 2 at a consideration of RMB113,224,000 and RMB34,900,000, respectively.

Further announcement(s) will be made by the Company upon completion of the Disposal of Two Target Companies as and when required under the Listing Rules.

B. THE JV AGREEMENT

The principal terms of the JV Agreement are summarized below:

Date: August 23, 2019

Parties: (a) Modern Farming
(b) Jiangsu Agriculture

Registered capital: The registered capital of the JV Company is RMB560,000,000 and each of Modern Farming and Jiangsu Agriculture commits to contribute RMB168,000,000 and RMB392,000,000, respectively, in the capital of the JV Company.

The first tranche of the capital contribution of RMB12,000,000 and RMB28,000,000 are to be made by Modern Farming and Jiangsu Agriculture, respectively, within 10 business days following the date on which the JV Company and Modern Farming enter into definitive transaction document in respect of the acquisition of the first target energy project company.

The second tranche of the capital contribution will be made by the parties within 10 business days following the date on which the completion of the acquisition of the first batch of the target energy project companies takes place. The sum of the first and second tranches of the capital contributions will not be less than 95% of the total consideration of such acquisition.

The remaining capital contribution will be settled by Modern Farming and Jiangsu Agriculture when the JV Company identifies other suitable energy project companies as acquisition targets from Modern Farming. As at the date of this announcement, no such acquisition target has been identified except for Target Company 1 and Target Company 2.

Board of directors:

The board of directors of the JV Company comprises six members, including two nominated by Modern Farming and four nominated by Jiangsu Agriculture. The chairman of the board of directors of the JV Company will be a director nominated by Jiangsu Agriculture, subject to approval of the majority of the directors of the JV Company.

Distribution of profit:

Profit after taxation and deduction of legal reserve available for distribution for each year will be distributed to Modern Farming and Jiangsu Agriculture in proportion to their respective capital contributions in the JV Company.

C. THE SHARE TRANSFER AGREEMENTS

The principal terms of the two Share Transfer Agreements are summarized below:

Date: December 31, 2019

Parties: (a) Modern Farming as seller
(b) The JV Company as buyer

Subject matter: the entire equity interest in the registered capital of the relevant Target Company

Consideration:

- RMB113,224,000 in respect of Target Company 1
- RMB34,900,000 in respect of Target Company 2

The consideration will be settled in cash via bank transfer in three tranches:

- (a) 20% of the consideration will be settled within 15 business days following the date of the relevant Share Transfer Agreement;
- (b) 75% of the consideration will be settled within 15 business days following the date of completion of the share transfer under the relevant Share Transfer Agreement; and
- (c) 5% of the remaining consideration balance will be settled within one year following the date of completion of the share transfer under the relevant Share Transfer Agreement.

The considerations were determined based on arm's length negotiations between Modern Farming and Jiangsu Agriculture after taking into account, among others, the carrying amount of the Underlying Assets held by the respective Target Companies, the results of financial modeling, and the financial benefits and operation synergy expected to be generated from such assets.

Conditions Precedent:

the completion of the transfer of shares pursuant to the relevant Share Transfer Agreement is subject to the following conditions:

- (a) the necessary approval from the relevant third party and notification to the relevant third party in written form as required by the transfer of shares pursuant to the relevant Share Transfer Agreement having been obtained;
- (b) a written consensus between both parties in relation to the appointment and removal of directors, supervisors and senior management of the relevant Target Company having been obtained;

- (c) Modern Farming having assisted the relevant Target Company to complete the Relevant Lease Agreement between the relevant affiliate of Modern Farming as lessor and the relevant Target Company as lessee under certain terms and conditions and procure such affiliate of Modern Farming to use its best endeavours to extend the leasing period to December 31, 2039;
- (d) the relevant Target Company having provided services such as steam, energy, biogas (as the case may be) to Modern Farming (or its affiliate) and having entered into service agreements with Modern Farming (or its affiliate) in relation to the provision of such services;
- (e) Modern Farming (or its affiliate) having provided water supply (in respect of Target Company 1), staff catering and accommodation to the relevant Target Company and, in respect of Target Company 1, having entered into a service agreement with the Target Company 1 in relation to the provision of water supply;
- (f) there having not been any material adverse change which would materially affect the operation of the ordinary business of the relevant Target Company caused by Modern Farming between the date of the relevant Share Transfer Agreement and the date of completion;
- (g) there having not been any event which would materially and adversely affect the operation and production, financial position, and major assets of the relevant Target Company since October 10, 2019; and
- (h) there having not been any material adverse change to the control of operations by the actual controller of the relevant Target Company since October 10, 2019.

Completion:

Completion will take place within 5 business days following the payment of the first tranche of the consideration and all the conditions precedent have been satisfied (or waived, if applicable). As of the date of this announcement, none of the aforesaid conditions has been satisfied and Modern Farming has no intention to waive any of the conditions precedent. Modern Farming will not waive any of the conditions precedent if the waiver is not fair and reasonable and not in the interest of the Company and its Shareholders as a whole.

Undertakings:

Amongst other general undertakings, Modern Farming has undertaken the following:

- (a) the source of manure feed will include facilities such as cowsheds for lactation cows, off-cycle cows, calving cows, heifers, mature cows and calves, manure collection pool of milking parlors; the JV Company will build certain sewage treatment system within one year following the completion of the relevant Share Transfer Agreement; Modern Farming (or its affiliate) will pay a standard charge for the amount of sewage collected in the milking parlors which exceeds an agreed volume. Prior to the establishment of the treatment system, the sewage can be temporarily discharged to the manure fermentation system;
- (b) unless Modern Farming ceases to hold, directly or indirectly, interest in the relevant Target Company, Modern Farming or its affiliates will continuously supply manure feed as required by the relevant Target Company; within the Initial Operation Period, the supply of manure feed will be free of charge or as separately negotiated between the parties subject to the operational needs of the relevant Target Company provided that it will not reduce the value of the relevant project; after the expiry of the Initial Operation Period, the pricing mechanism for the manure feed will be separately negotiated between the parties;

- (c) during the Initial Operation Period, an annual minimum of TS content (subject to adjustment) will be maintained in the feed; after the expiry of the Initial Operation Period, the annual minimum TS content will be separately negotiated between the parties;
- (d) Modern Farming will procure its relevant affiliate, as lessor, to fully perform the Relevant Lease Agreement in order to ensure the relevant Target Company will have a valid land use right over the land thereunder in compliance with the relevant laws;
- (e) Modern Farming undertakes that the JV Company or the relevant Target Company will not suffer any loss arising from the pre-existing debt liabilities of the relevant subsidiary of Modern Farming, from which the relevant Underlying Assets were spun off, guaranteed by the relevant Target Company; if the JV Company or the relevant Target Company suffers any loss due to the aforementioned debt liabilities, Modern Farming will be liable to such loss.

Special Options:

If any of the following occurs:

- (a) within 18 years following the date of completion of the relevant Share Transfer Agreement, if Modern Farming is in breach of any of the undertakings (a), (b) or (e) above and such breach is not corrected or remediated within 30 business days following the day the JV Company or the relevant Target Company raises such dispute in writing causing the relevant Target Company to suffer material losses, the amount of which exceeds RMB10 million (save from any loss arising from the gross negligence, willful default or fraud of the JV Company or the relevant Target Company (as the case may be));

- (b) upon the expiry of the leasing term of the Relevant Lease Agreement, if Modern Farming fails to ensure the relevant Target Company will have a valid land use right over the land under the Relevant Lease Agreement until December 31, 2039; or
- (c) within 18 years following the date of completion of the relevant Share Transfer Agreement, the TS content of the feed falls below 80% of the annual minimum pursuant to undertaking (c) above;

the JV Company has a right to require Modern Farming to purchase all the equity interest in the relevant Target Company transferred to the JV Company pursuant to the relevant Share Transfer Agreement and the purchase price will be 130% of the sum of (i) the consideration under the relevant Share Transfer Agreement and (ii) the subsequent capital commitment(s) in respect of the relevant Target Company (in a maximum of RMB43.6 million in respect of Target Company 1 and RMB27.21 million in respect of Target Company 2). For the avoidance of doubt, the accumulated profit/(loss) indirectly attributable to the shareholders of the JV Company in proportion to their respective shareholdings will not be taken into account.

The Directors consider that the total consideration and the terms of the two Share Transfer Agreements are fair and reasonable, and the entry into the Share Transfer Agreements and the Disposal of Two Target Companies are in the interests of the Company and its shareholders as a whole.

D. INFORMATION THE PARTIES

The CITIC Group

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 Formation of the JV Company and the Disposal of Two Target Companies are implemented in collaboration with an industrial fund management firm under CITIC Environment.

Jiangsu Agriculture is an energy-saving environmental friendly platform under the CITIC Group which aims to promote new energy technology improvement and manufacturing industry upgrade.

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, each of Jiangsu Agriculture and CITIC Environment 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 Listing Rules).

The JV Company

The JV Company is a company established in the PRC, which is owned as to 30% by Modern Farming and 70% by Jiangsu Agriculture for the purpose of establishing a cooperation platform for investment in projects in relation to integrated resources utilization of agricultural and forestry waste materials.

The Group

The Group is currently the largest dairy farming operator and fresh raw milk producer in the PRC in terms of its herd size and milk yield. The Group operates 26 dairy farms in the PRC with approximately 230,000 heads of dairy cows and annual milk yield 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” and is the first and only enterprise at present in the PRC that integrates forage grass planting, cow breeding and milk processing and qualified with SGS certification. The Group’s products have been consecutively awarded with the gold prize of Monde Selection, which is generally regarded as the “Nobel Prize” in the food industry.

E. FINANCIAL INFORMATION ON THE TARGET COMPANIES

Target Company 1 and Target Company 2 were incorporated in July 2019 and have not yet recorded significant revenue or profit/(loss) due to short operating period.

The unaudited total asset value and net asset value of Target Company 1 as at November 30, 2019 were approximately RMB55,301,366 and RMB54,456,232, respectively.

The unaudited total asset value and net asset value of Target Company 2 as at November 30, 2019 were approximately RMB21,880,673 and RMB21,476,791, respectively.

F. FINANCIAL IMPACT AND USE OF PROCEEDS

Immediately upon the completion of the Disposal of Two Target Companies, it is expected that the Group would recognize a gain of approximately RMB67 million, which represents the difference between the net proceeds from the Disposal of Two Target Companies and the unaudited carrying amount of the Target Companies as at November 30, 2019, and less the fair value of the Special Options. Such calculation is only an estimation provided for illustrative purposes and the accounting treatment of the Disposal of Two Target Companies will be subject to further review by the auditors of the Company.

The majority of the net proceeds received from the Disposal of Two Target Companies will be used to repay bank borrowings and the remaining balance will be used as general working capital of the Group.

Upon completion, the Target Companies will cease to be subsidiaries of the Company and will instead become subsidiaries of the JV Company. The financial results of the Target Companies will not be consolidated into the consolidated financial statements of the Group, and are expected to be consolidated into the consolidated financial statements of the JV Company.

G. REASONS FOR AND BENEFIT OF THE FORMATION OF THE JV COMPANY AND DISPOSAL OF TWO TARGET COMPANIES

By leveraging on the expertise, experience and resources of CITIC Environment in modern agriculture industry, the Formation of the JV Company and the Disposal of Two Target Companies will improve the resources utilization efficiency of agricultural and forestry waste materials, 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 establishment of a benchmark project by Modern Farming and CITIC Environment in the agri-environment segment without compromising the production and operation requirements of Modern Farming enables the promotion of the industrial upgrading of manure treatment in the field of agri-environment as well as sets an innovative model in the field of agri-environment.

H. LISTING RULES IMPLICATIONS

As all of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Formation of the JV Company are less than 5%, the Formation of the JV Company, per se, does not constitute a discloseable transaction for the Company under the Listing Rules. As the Formation of the JV Company, the Disposal of Two Target Companies and the grant of the Special Options are related and are expected to complete within a 12-month period, the Formation of the JV Company, the Disposal of Two Target Companies and the grant of the Special Options will be aggregated as a series of transactions pursuant to Rule 14.22 of the Listing Rules. As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Disposal of Two Target Companies and the grant of the Special Options, when aggregated with the Formation of the JV Company, are more than 5% but less than 25%, the transactions contemplated under the JV Agreement and the Share Transfer Agreements constitute discloseable transactions for the Company under the Listing Rules and are therefore subject to the reporting and announcement requirements as set out in Chapter 14 of the Listing Rules.

I. DEFINITIONS

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

“Board”	the board of Directors
“CITIC Environment”	CITIC Environment Investment Group Co., Ltd.* (中信環境投資集團有限公司) and its subsidiary CITIC Agricultural Industry Fund Management Co., Ltd.* (中信農業產業基金管理有限公司), each a limited liability company incorporated under the laws of the PRC
“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 of Hong Kong Limited (stock code: 1117)
“Director(s)”	the director(s) of the Company
“Disposal of Two Target Companies”	the disposal of Target Company 1 and Target Company 2 pursuant to the Share Transfer Agreements
“Formation of the JV Company”	the formation of the JV Company between Modern Farming and Jiangsu Agriculture pursuant to the JV Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Initial Operation Period”	20 years from the date of completion of the relevant Share Transfer Agreement
“Jiangsu Agriculture”	Jiangsu Agriculture Environment Energy Technology Co., Ltd.* (江蘇農環能源科技有限公司), a company incorporated under the laws of the PRC
“JV Agreement”	the joint venture agreement dated August 23, 2019 entered into between Modern Farming and Jiangsu Agriculture in relation to the Formation of the JV Company

“JV Company”	Jiangyin Dairy Energy Environment Technology Co., Ltd.* (江陰牧能環境科技有限公司), a company incorporated under the laws of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Exchange of Hong Kong Limited
“Modern Farming”	Modern Farming (Group) Co., Ltd., an indirectly non-wholly owned subsidiary of the Company and a limited liability company incorporated under the laws of the PRC
“PRC”	the People’s Republic of China and for the sole purpose of this announcement excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Relevant Lease Agreement”	the relevant lease agreement between the relevant Target Company with the relevant affiliate of Modern Farming as lessor in respect of the land currently occupied by the relevant Underlying Assets
“RMB”	Renminbi
“Share(s)”	ordinary share(s) of par value HK\$0.10 each in the share capital of the Company
“Share Transfer Agreement(s)”	the share transfer agreement dated December 31, 2019 entered into between Modern Farming and the JV Company in relation to the disposal of Target Company 1 and/or the share transfer agreement dated December 31, 2019 entered into between Modern Farming and the JV Company in relation to the disposal of Target Company 2 (as the case may be)
“Shareholder(s)”	holder(s) of the Shares
“Special Options”	the special put options granted by Modern Farming to the JV Company under the Share Transfer Agreements in respect of the equity interests in Target Company 1 and Target Company 2, respectively, as summarized in section C of this announcement

“Target Company 1”	Modern Energy (Wuhe) Co., Ltd.* (現代能源(五河)有限公司), a company incorporated in the PRC and an indirectly non wholly-owned subsidiary of the Company as at the date of this announcement
“Target Company 2”	Modern Energy (Hefei) Co., Ltd.* (現代能源(合肥)有限公司), a company incorporated in the PRC and an indirectly non wholly-owned subsidiary of the Company as at the date of this announcement
“Target Company(ies)”	Target Company 1 and/or Target Company 2 (as the case may be)
“TS”	total solid
“Underlying Assets”	the underlying energy-producing assets held by Target Company 1 and Target Company 2 (as the case may be) disposed by Modern Farming to the JV Company pursuant to the Share Transfer Agreements

As completion of the Disposal of Two Target Companies is subject to and conditional upon fulfilment of the conditions precedent set out in the respective Share Transfer Agreements and the transactions contemplated thereunder may or may not proceed to completion. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares of the Company.

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, the independent non-executive directors are Mr. LI Shengli, Mr. LEE Kong Wai Conway and Mr. KANG Yan.

* For identification purpose only