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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

ACQUISITION OF 100% EQUITY INTERESTS IN ZHONGYUAN MUYE COMPANY LIMITED*

THE ACQUISITION

The Board is pleased to announce that on April 8, 2021 (after trading hours), the Purchaser, a non-wholly owned subsidiary of the Company, entered into the Sale and Purchase Agreement with, amongst others, the Seller and the Target Company to acquire 100% equity interests in the Target Company (which has an ecological farm with a land area of approximately 1,940 acres and breeding capacity of 22,000 dairy cows, and has more than 17,000 dairy cows as at the date of this announcement) at a Consideration of no more than RMB815,246,680, subject to the terms and conditions of the Sale and Purchase Agreement.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) calculated in accordance with the Listing Rules are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements but exempt from the Shareholders' approval requirement under Chapter 14 of the Listing Rules.

As Completion is subject to and conditional upon fulfillment (or waiver, if applicable) of various conditions set out in the Sale and Purchase Agreement, the Acquisition may or may not proceed to Completion. Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

THE ACQUISITION

The Board is pleased to announce that on April 8, 2021 (after trading hours), the Purchaser, a non-wholly owned subsidiary of the Company, entered into the Sale and Purchase Agreement with, amongst others, the Seller and the Target Company. The principal terms of the Sale and Purchase Agreement are set out as follows:

The Sale and Purchase Agreement

Date

April 8, 2021

Parties

- (i) the Purchaser;
- (ii) the Seller;
- (iii) Mr. Zhang Dinghong and Ms. Song Lihua (as the Seller's guarantors); and
- (iv) the Target Company.

Subject Matter

Subject to the terms and conditions of the Sale and Purchase Agreement, the Purchaser agreed to purchase, and the Seller agreed to sell, 100% equity interests in the Target Company.

The main assets of the Target Company include an ecological farm, with a land area of approximately 1,940 acres and breeding capacity of 22,000 dairy cows, and more than 17,000 dairy cows as at the date of this announcement.

The liabilities of the Target Company which will be assumed by the Purchaser upon Completion Date include:

- (a) operating liabilities of the Target Company in the amount of RMB400,000,000;
- (b) estimated amount of damages of RMB250,000,000 (the "**Estimated Amount of Damages**") payable by the Target Company in relation to an ongoing arbitration proceeding (the "**Proceeding**") in which the Target Company is a respondent; and
- (c) government loans at the principal amount of RMB34,753,320.

Consideration and Payment Schedule

The Consideration payable is no more than RMB815,246,680 (equivalent to approximately HK\$969,980,500 based on the exchange rate of RMB1.00 to HK\$1.1898 as at the date of this announcement), representing the sum of (i) the four tranches payments as set out below; and (ii) the Estimated Amount of Damages payable by the Target Company.

The Consideration shall be payable by the Purchaser in the following manner:

- (i) the first tranche payment of RMB169,500,000 (equivalent to approximately HK\$201,671,100) is payable within five (5) business days upon fulfillment or waiver of all conditions precedent as set out in the Sale and Purchase Agreement;
- (ii) the second tranche payment of RMB113,000,000 (equivalent to approximately HK\$134,447,400) is payable within ten (10) business days upon completion of certain events, including:
 - (a) the Target Company's assets subject to the Acquisition having been agreed by the Purchaser;
 - (b) all regulatory approvals in relation to the Acquisition having been obtained before July 31, 2021, failing which the first tranche payment shall be refunded to the Purchaser;
 - (c) the settlement of the Target Company's liabilities incurred prior to December 31, 2020 to the satisfaction of the Purchaser before August 31, 2021, failing which the first tranche payment shall be refunded to the Purchaser; and
 - (d) confirming the settlement method for non-operating and debt liabilities incurred by the Target Company between December 31, 2020 and the date on which the Target Company's assets subject to the Acquisition having been agreed as referred to in paragraph (a) above;

In the event that the first tranche payment should be refunded to the Purchaser as mentioned above, Mr. Zhang Dinghong and Ms. Song Lihua, as the Seller's guarantors, jointly and severally guaranteed such payment obligations of the Seller to the Purchaser.

- (iii) the third tranche payment of RMB254,250,000 (equivalent to approximately HK\$302,506,650) is payable within ten (10) business days upon completion of the change of business registration records of the Target Company with the relevant Administrations for Industry and Commerce in the PRC to reflect the transfer of Seller's interests to the Purchaser; and

- (iv) the final tranche payment of RMB28,496,680 (equivalent to approximately HK\$33,905,350) is payable within ten (10) business days of the later of:
 - (a) the date on which certain matters are completed, including certain non-compliance defects having been duly rectified by the Seller and/or the Target Company (such as payment of administrative penalty and settlement of civil cases); or
 - (b) the date that is the first anniversary of the Completion Date.

If the non-compliance defects have not been rectified by the first anniversary of the Completion Date, the Purchaser is entitled to deduct RMB10,000,000 from the final tranche payment, reducing the final tranche payment to RMB18,496,680 (equivalent to approximately HK\$22,007,350).

Adjustments to Consideration and Related Special Arrangements

The aggregate amount of the above four tranches payments is RMB565,246,680 (equivalent to approximately HK\$672,530,500), assuming no deduction is made to the final tranche payment as set out above. Subject to the Consideration being no more than RMB815,246,680 (equivalent to approximately HK\$969,980,500), the Consideration will be adjusted upward or downward depending on certain events as set out below.

If the final amount of damages payable by the Target Company in the Proceeding (the “**Final Amount of Damages**”) is lower than RMB250,000,000, the Purchaser shall pay the relevant difference to the Seller, in addition to the four tranches payments. In the event that:

- (i) the Final Amount of Damages is determined prior to the first tranche payment, the difference shall be paid in three instalments of 30%, 20% and 50% of such amount of difference. For illustration purpose, assuming the Final Amount of Damages is nil and the difference is therefore RMB250,000,000, RMB250,000,000 shall be payable by the Purchaser together with the first three tranches payments as follows pursuant to the payment schedule as set out in the sub-section headed “Consideration and Payment Schedule”:
 - (a) the first tranche payment will be increased by RMB75,000,000 to a total amount of RMB244,500,000 (equivalent to approximately HK\$290,906,100);
 - (b) the second tranche payment will be increased by RMB50,000,000 to a total amount of RMB163,000,000 (equivalent to approximately HK\$193,937,400); and
 - (c) the third tranche payment will be increased by RMB125,000,000 to a total amount of RMB379,250,000 (equivalent to approximately HK\$451,231,650).

The total amount of Consideration in such case will be RMB815,246,680 (equivalent to approximately HK\$969,980,500).

- (ii) the Final Amount of Damages is determined on or after Completion, the difference shall be paid to the Seller one-off within twenty (20) business days (the “**Payment Date**”) upon the effective date of the arbitral award.

If the Final Amount of Damages is higher than RMB250,000,000, the Seller shall pay the difference to the Target Company. Mr. Zhang Dinghong and Ms. Song Lihua, as the Seller’s guarantors, jointly and severally guaranteed the payment obligations of the Seller to the Target Company in such event. The total amount of payment by the Purchaser in such case will be RMB565,246,680 (equivalent to approximately HK\$672,530,500).

Further, if an award is made to the Target Company for its counterclaim, such award shall be paid to the Seller within three (3) days upon receipt by the Target Company. The total amount of Consideration in such case will be RMB815,246,680 (equivalent to approximately HK\$969,980,500).

The Consideration will also be adjusted if the Target Company’s liabilities incurred prior to December 31, 2020 could not be settled prior to the second tranche payment of the Consideration. The Purchaser has the discretion to take up such liabilities and in which case, the settlement amount would be deducted from the Consideration.

Conditions Precedent to Payment

The first tranche payment of the Consideration, which is expected to take place on or before April 30, 2021, is conditional upon fulfillment of certain customary conditions precedent (unless waived by the Purchaser), including:

- (i) due diligence on the Target Company by the Purchaser having been completed pursuant to the Sale and Purchase Agreement;
- (ii) all necessary regulatory and corporate approvals, consents, registrations and filings in relation to the Acquisition having been obtained or completed;
- (iii) no material adverse event which would have material impact on the business, financial situation and shareholding structure of the Target Company having occurred.

Upon Completion, the Target Company will become a non-wholly owned subsidiary of the Company. The financial results of the Target Company will be consolidated into the financial statements of the Group.

BASIS FOR DETERMINING THE CONSIDERATION

The Consideration has been determined after arm's length negotiations among the Purchaser and the Seller with reference to (i) the significance of the Target Company to the future development of the Group; (ii) the development prospect of the Target Company; (iii) the synergistic effects in terms of farm operation and management team arising from the Acquisition; (iv) the production capacity and herd size of the Target Company; (v) financial strength and soundness of the Target Company; and (vi) the fair value of the Target Company as at December 31, 2020 pursuant to the valuation conducted by an independent third party valuer adopting the market approach.

The Consideration will be funded by a combination of internal resources of the Group and external financing.

INFORMATION ABOUT THE GROUP AND THE PURCHASER

The Company is a company incorporated in the Cayman Islands with limited liability, which is listed on the Main Board of the Stock Exchange. The Company is an investment holding company, which, along with its subsidiaries, is principally engaged in dairy farming operations, production and sale of raw milk. The Group operates 26 dairy farms in the PRC with over 247,000 dairy cows and annual milk yield of approximately 1.5 million tons.

The Purchaser is a company incorporated with limited liability under the laws of the PRC and, as at the date of this announcement, a non-wholly owned subsidiary of the Company.

INFORMATION ABOUT THE SELLER

The Seller is a company incorporated with limited liability under the laws of the PRC and is principally engaged in livestock breeding technology, consultancy, technology transfer, farms planning, etc. The ultimate beneficial owners of the Seller are 27 individual and corporate shareholders, including Mr. Zhang Dinghong and Ms. Song Lihua.

As of the date of this announcement, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Seller and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons (as defined in the Listing Rules).

INFORMATION ABOUT THE TARGET COMPANY

The Target Company is a company incorporated with limited liability under the laws of the PRC, and is principally engaged in cow breeding, farms management and operation, milk production and sale, meat processing and sale, forage grass planting and sale, livestock breeding technology development, as well as import and export of products and technology.

The following financial information is extracted from the audited financial statements of the Target Company for the year ended December 31, 2019 and the unaudited management accounts of the Target Company for the year ended December 31, 2020, respectively:

	For the year ended	
	December 31	
	2019	2020
	<i>RMB</i>	<i>RMB</i>
	<i>(in thousands)</i>	<i>(in thousands)</i>
	<i>(Audited)</i>	<i>(Unaudited)</i>
Revenue	537,422	775,734
Net profit before tax	88,403	128,458
Net profit after tax	88,403	128,458

The unaudited total asset value and net asset value of the Target Company as at December 31, 2020 were RMB1,259,356,000 and RMB446,833,000 respectively.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is the largest dairy farming company in terms of herd size and the largest raw milk producer in China. It is committed to upstream dairy farming business and provide high-quality fresh raw milk to customers. One of the focuses of the Group's operation strategy is to increase the herd size in a stable manner, thereby increasing the production yields and attaining steady and sustainable business growth.

The Target Company has a modern ecological farm located at Shijiazhuang, Hebei Province, China, with land area of approximately 1,940 acres and breeding capacity of 22,000 dairy cows, and has more than 17,000 dairy cows producing on average 350 tons fresh raw milk daily, as at the date of this announcement.

The Directors consider that the business activities of the Target Company, being cow breeding, farms operation and milk production, are in line with the Group's overall strategy. The Acquisition will create substantive synergistic effects in terms of farm operation, management and financial strength, etc. of the Group. Following the Acquisition, the number of dairy cows of the Group will be increased, which would further strengthen its position in the dairy farming industry in China and enhance the Group's competitiveness in terms of quality and pricing of raw milk. In the long run, the Group is committed to building a smart, eco-friendly, finely-branded and all-rounded ecological farm.

In light of the above, the Directors are of the view that the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) calculated in accordance with the Listing Rules are more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements but exempt from the Shareholders' approval requirement under Chapter 14 of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

The Target Company has entered into a milk supply agreement with Baoding Mengniu in December 2020, pursuant to which Baoding Mengniu agreed to purchase fresh raw milk from the Target Company from January 1, 2021 to December 31, 2025.

As at the date of this announcement, Baoding Mengniu is a subsidiary of Mengniu, a substantial shareholder and connected person of the Company. Therefore, Baoding Mengniu is an associate of Mengniu and a connected person of the Company. Upon Completion, the Target Company will become a non-wholly owned subsidiary of the Company, and therefore the transactions under the milk supply agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Company will make further announcement in compliance with Rule 14A.60 of the Listing Rules as and when required.

As Completion is subject to and conditional upon fulfillment (or waiver, if applicable) of various conditions set out in the Sale and Purchase Agreement, the Acquisition may or may not proceed to Completion. Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

DEFINITIONS

Unless the context requires otherwise, the following terms have the following meanings in this announcement:

“Acquisition”	the proposed acquisition of 100% equity interests in the Target Company pursuant to the Sale and Purchase Agreement
“Baoding Mengniu”	Baoding Mengniu Beverage Company Limited* (保定蒙牛飲料有限公司), a company incorporated with limited liabilities under the laws of the PRC, which is a subsidiary of Mengniu as at the date of this announcement
“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)
“Completion”	the completion of the change of business registration records of the Target Company with the relevant Administrations for Industry and Commerce in the PRC to reflect the transfer of Seller’s interests to the Purchaser
“Completion Date”	the date on which Completion occurs in accordance with the Sale and Purchase Agreement
“Consideration”	consideration for the Acquisition of no more than RMB815,246,680 and is subject to adjustments pursuant to the terms of the Sale and Purchase Agreement
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“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 as of the date of this announcement
“PRC”	the People’s Republic of China and for the sole purpose of this announcement excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Purchaser”	Modern Farming (Group) Co., Ltd.* (現代牧業(集團)有限公司) and, as at the date of this announcement, a non-wholly owned subsidiary of the Company

“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the Sale and Purchase agreement dated April 8, 2021 entered into between, amongst others, the Purchaser, the Seller and the Target Company in relation to the Acquisition
“Seller”	Asia Dairy Fab Ltd.* (中博農畜牧科技股份有限公司), a company incorporated with limited liability under the laws of the PRC
“Share(s)”	ordinary share(s) in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Zhongyuan Muye Company Limited* (中元牧業有限公司), a company incorporated with limited liability under the laws of the PRC
“%”	per cent.

* For identification purpose only

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

Hong Kong, April 8, 2021

As of the date of this announcement, the executive directors are Ms. GAO Lina and Mr. SUN Yugang, the non-executive directors are Mr. LU Minfang (Chairman), Mr. ZHANG Ping, Mr. ZHAO Jiejun and Ms. GAN Lu, and the independent non-executive directors are Mr. LI Shengli, Mr. LEE Kong Wai Conway and Mr. WOLHARDT Julian Juul.