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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)

**CONTINUING CONNECTED TRANSACTION  
THE NEW FRAMEWORK SUPPLY AGREEMENT WITH QIUSHI**

Reference is made to the announcement of the Company dated June 8, 2012 with regards to the Frame Supply Agreement between Modern Farm, a non-wholly owned subsidiary of the Company, and Qiushi in relation to the supply of Forage Grass to the Buyer Group for the period from June 8, 2012 up to and including November 30, 2012.

Given the supply from Qiushi from June 2012 has been stable and proven to meet the requirements of the Group, the Company intends to purchase a larger amount of Forage Grass from Qiushi for a longer period of time. The Board announces that Modern Farm entered into the New Framework Supply Agreement with Qiushi on October 10, 2012 with the intention of replacing and substituting the Framework Supply Agreement.

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 of the Company, can exercise more than 50% of the voting power at general meetings of Qiushi.

Given that one or more of the relevant percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules is expected to exceed 5% in relation to the transactions contemplated under the New Framework Supply Agreement and the annual consideration under the New Framework Supply Agreement will be over HK\$10 million, such transactions will constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules and are therefore subject to reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

A circular containing details of the New Framework Supply Agreement, a letter from the independent board committee of the Company and a letter of advice from the independent financial adviser to the independent board committee of the Company and the Independent Shareholders together with a notice convening the EGM will be dispatched to the shareholders of the Company as soon as practicable on or before November 1, 2012.

## I. INTRODUCTION

Reference is made to the announcement of the Company dated June 8, 2012 in which it was announced that Modern Farm, a non-wholly owned subsidiary of the Company, entered into the Framework Supply Agreement with Qiushi in relation to the supply of Forage Grass to the Buyer Group for the period from June 8, 2012 up to and including November 30, 2012. The Framework Supply Agreement provided a maximum aggregate purchase amount to be payable by the Group for the supply of Forage Grass which amounts to RMB50,000,000.

Given the supply from Qiushi from June 2012 has been stable and proven to meet the requirements of the Group, the Company intends to purchase a larger amount of Forage Grass from Qiushi for a longer period of time. Modern Farm entered into the New Framework Supply Agreement with Qiushi on October 10, 2012 with the intention of replacing and substituting the Framework Supply Agreement. All of the New Framework Supply Agreement, the continuing connected transactions contemplated thereunder and the respective Caps are subject to approval by the Independent Shareholders of the Company at the EGM.

## II. DETAILS OF THE NEW FRAMEWORK SUPPLY AGREEMENT

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

- Date** : October 10, 2012
- Parties** (i) Modern Farm as the Buyer; and  
(ii) Qiushi as the Seller.
- Duration** : For a term commencing from the date of the EGM subject to the approval of the Independent Shareholders at the EGM to June 30, 2015.
- Nature of Transaction** : Sales and supply of Forage Grass by the Seller Group to the Buyer Group.
- Caps** : The maximum aggregate purchase amount for each of the financial year ending 30 June 2013, 2014 and 2015 shall not exceed RMB357,800,000, RMB486,060,000 and RMB535,840,000.

The above Caps were estimated based on (i) the actual purchase amount incurred by the Group between June 8, 2012 and September 30, 2012 of RMB49,500,000, (ii) the expansion plan of the Seller Group and the demand for Forage Grass of the dairy farms of the Buyer Group; (iii) the market price of Forage Grass of the corresponding quality level which meets the requirements of the Buyer; (iv) the lease of professional harvesting equipments by the Buyer Group to the Seller Group during the period from October 9, 2012 to June 30, 2015 in order to facilitate the Seller Group to supply Forage Grass of good quality to the Buyer Group; and (v) the forecast by the Parties as to price of Forage Grass for the term of the New Framework Supply Agreement.

Payments made by Modern Farm pursuant to the New Framework Supply Agreement are expected to be funded by internal cash resources of the Group or bank borrowing.

**Principal Terms of the Agreement** : Other principal terms of the New Framework Supply Agreement are set out below:

- (i) The Buyer and the Seller shall confirm the Estimated Purchase Volume for each month of the financial years ending June 30, 2013, 2014 and 2015 before the end of October 2012, June 2013 and June 2014, respectively. The Estimated Purchase Volume is estimated based on the estimated production capacity of the Supplying Pastures and the estimated demand for Forage Grass of the dairy farms of the Buyer Group;
- (ii) In the event that the Supplying Pastures' actual production volume is below the estimated production capacity, the Seller Group shall use its best endeavors to provide each of the relevant dairy farms of the Buyer Group with the Estimated Purchase Volume; in the event that the Seller Group contemplates that they are not able to fulfill the Estimated Purchase Volume of any of the relevant dairy farms of the Buyer Group, the Seller shall notify the Buyer immediately. In the event that that the Supplying Pastures' actual production volume is above the Estimated Purchase Volume, the Seller should inform the Buyer as soon as possible, and in such case the Buyer is entitled to increase the Estimated Purchase Volume;

- (iii) The Buyer agrees to purchase the Estimated Purchase Volume of Forage Grass that meets the quality requirements of the Buyer and which is cultivated by the Supplying Pastures and delivered to the relevant farms of the Buyer Group. The Seller agrees to deliver and sell the Estimated Purchase Volume of Forage Grass, which meets the quality requirements of the Buyer, to the respective dairy farms of the Buyer Group;
- (iv) In the event that an Independent Third Party offers more favorable terms to the Seller Group, the Seller Group shall have the right to sell to that Independent Third Party such volume of Forage Grass not exceeding 30% of each of the Supplying Pastures' monthly production volume, provided that the Seller informs the Buyer in writing 15 days before the signing of the agreement with such Independent Third Party. In the event that the Seller Group enters into such arrangement, written or non-written, with an Independent Third Party, the Buyer Group shall thereafter owe no obligation to the Seller Group to purchase such percentage of its total production volume of Forage Grass which equals to the percentage of the total sales volume of Forage Grass agreed to be sold to such Independent Third Party.
- (v) For the Seller Group to sell Forage Grass to any Independent Third Party which operates any dairy farms located within 200 kms of dairy farms operated by the Buyer Group, the unit price of Forage Grass offered by such Independent Third Party shall not be lower than the sum of the base price and the adjusted price offered by the Buyer Group, without taking into account the discount of 10%;
- (vi) In the event that an Independent Third Party offers to purchase Forage Grass from the Seller Group at a price more than 10% higher than the sum of the base price and the adjusted price, the Seller Group is entitled to sell the Forage Grass to that Independent Third Party and the 30% volume restriction mentioned in paragraph (iv) above shall not apply. However, in the event that the Seller sells a volume of Forage Grass exceeding 30% of each of the Supplying Pastures' monthly production volume to an Independent Third Party, it

shall notify the Buyer in writing three months prior to its entering into an agreement with that Independent Third Party. In the event that the Seller Group enters into such agreement, written or non-written, with an Independent Third Party, the Buyer Group shall thereafter owe no obligation to the Seller Group to purchase such percentage of its total production volume of Forage Grass which equals to the percentage of the total sales volume of Forage Grass agreed to be sold to such Independent Third Party.

- (vii) If the Forage Grass delivered to the dairy farms of the Buyer Group do not meet the minimum standards or appear moldy, the Buyer Group is entitled to reject the bundle or batch of the above Forage Grass;
- (viii) The Buyer and Seller will appoint independent accountants on a quarterly basis to review the quality and price of the Forage Grass provided by the Seller Group under the New Framework Supply Agreement and produce a review report for this purpose;
- (ix) Apart from silage corn, the inventory days of Forage Grass purchased by The Buyer Group from the Seller Group in any field of the Buyer Group do not exceed one month;
- (x) In any three consecutive months, if (i) the purchase amount of a particular type of Forage Grass supplied by the Seller Group exceeds 50% of the total purchase amount of the Buyer Group for that type of Forage Grass; or (ii) the aggregate purchase amount of Forage Grass supplied by the Seller Group exceeds 20% of the aggregate purchase amount of the Buyer Group for all feeds, no further transactions shall be conducted pursuant to the New Framework Supply Agreement within the relevant period of time unless approval is given by the Board.

**Pricing**

- : (i) For alfafa and oat grass, the unit price = (base price + adjusted price)x 90%; and

For silage corn and wheat straw, the unit price = (base price + adjusted price).

- (ii) The base price refers to the average quoted price received by the Buyer Group from third party suppliers (whether local or overseas) for Forage Grass that meets the minimum quality standard. Unless otherwise agreed by both parties, the base price is adjusted once every three months;
- (iii) The adjusted price is based on the upward adjustment to the unit price of Forage Grass according to the RFV index, water content, dry matter, starch and ash content of Forage Grass;
- (iv) The sum of the base price and the adjusted price are set with reference to the average price paid by the Buyer Group to third party suppliers (whether local or overseas) for the same type of Forage Grass under the same quality standard and shall not be higher than the import price of the same type of Forage Grass under the same quality standard;
- (v) In the event that the harvesting equipments are leased by the Buyer Group to the Seller Group to reap the Forage Grass, the Buyer Group is entitled to an additional discount in respect of the Forage Grass concerned. Such discount shall be determined with reference to the discount set for similar arrangements between the Buyer Group and third party suppliers.

**Payment terms** : The Buyer Group shall pay the Seller in the same way as it pays other suppliers of Forage Grass of the same quality.

**Conditions for termination of agreement** :

- (i) the aim of the New Framework Supply Agreement cannot be achieved for reasons of force majeure;
- (ii) either party commits a material breach of the New Framework Supply Agreement and fails to take remedial measures within a reasonable period (such period shall not be less than 30 days), or despite remedial measures being taken, such breach has already caused material losses to the other party and such other party demands termination of this agreement;
- (iii) either party of the New Framework Supply Agreement is liquidated or is unable to perform the obligations under this agreement for reasons of material deterioration of operating conditions and such material deterioration has continued for more than 30 days; and

(iv) the Buyer and the Seller agree in writing.

**Applicable laws** : The laws of the People's Republic of China.

### **III. REASONS FOR ENTERING INTO THE NEW FRAMEWORK SUPPLY AGREEMENT**

The Company needs a large amount of high quality Forages Grass, which acts as a key source of nutrition for the dairy cows and directly affects the quality of milk and the yield of milk production. Pursuant to the Framework Supply Agreement, the Group has purchased Forage Grass from the Seller Group since June 8, 2012 and the supply was stable and proven to meet the requirements of the Group. By entering into the New Framework Supply Agreement, the Group will be able to secure high quality Forage Grass from Qiushi over the next three years. In addition, the price of the Forage Grass provided by Qiushi includes a discount of 10% on the sum of the base price and adjusted price, which makes it cheaper than the same type of Forage Grass of corresponding quality provided by other suppliers. Moreover, Qiushi's pastures are located in close proximity to the dairy farms of the Group which renders it more convenient for the Group to monitor the planting, transportation and quality of the Forage Grass. The Directors therefore consider that, by procuring Forage Grass from Qiushi, the Group will be able to lower the costs of the Company.

The Directors, (including the independent non-executive Directors), are of the view that the terms of the New Framework Supply Agreement are on normal commercial terms, are fair and reasonable and in the interests of the Company and its Shareholders as a whole and the Caps are fair and reasonable.

### **IV. INFORMATION ON THE PARTIES**

#### **(a) 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.

#### **(b) Modern Farm**

Modern Farm is a 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.



(c) **Qiushi**

Qiushi was established in the PRC in September 2011 and is principally engaged in planting and sale of forage grass in the PRC. As at the date of this announcement, Modern Farm directly owns 18% of the equity interests in Qiushi. Each of Ms. Deng and Mr. Qi owns 63.33% and 13.33% of the equity interests in Qiushi, respectively.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, other than disclosed in this announcement, the ultimate beneficial owners of Qiushi are third parties independent of the Company and its connected persons.

**V. IMPLICATIONS UNDER THE LISTING RULES**

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 of the Company, can exercise more than 50% of the voting power at general meetings of Qiushi. Given that one or more of the relevant percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules is expected to exceed 5% in relation to the transactions contemplated under the New Framework Supply Agreement and the annual consideration under the New Framework Supply Agreement will be over HK\$10 million, such transactions will constitute non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules and are therefore subject to reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

**VI. GENERAL**

Each of Mr. Deng Jiuqiang and Ms. Gao Lina has a material interest in the transactions contemplated by the New Framework Supply Agreement and they therefore abstained from voting on the board resolution of the Company in approving the transaction. Save as disclosed, none of the Directors had a material interest in the New Framework Supply Agreement and none of them were therefore required to abstain from voting on the board resolutions of the Company in respect of the transaction.

An independent board committee of the Company comprising of the independent non-executive Directors, namely, Prof. LI Shengli, Prof. GUO Lianheng and Mr. LEE Kong Wai Conway has been established to advise the Independent Shareholders on the terms of the New Framework Agreement and how to vote. Cinda International Capital Limited has been appointed as the independent financial adviser to advise the independent board committee of the Company and the Independent Shareholders in this regard.

A circular containing details of the New Framework Supply Agreement, a letter from the independent board committee of the Company and a letter of advice from the independent financial adviser to the independent board committee of the Company and the Independent Shareholders together with a notice convening the EGM will be dispatched to the shareholders of the Company as soon as practicable, and in any event on or before November 1, 2012.



## VII. DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Buyer”	Modern Farm
“Buyer Group”	the Buyer and its subsidiaries
“Caps”	the maximum aggregate transaction amount of the New Framework Supply Agreement for each of the financial year ending June 30, 2013, 2014 and 2015
“China” or “PRC”	the People’s Republic of China (except Taiwan, Macau Special Administrative Region and the Hong Kong Special Administrative Region)
“Company”	China Modern Dairy Holdings Ltd., a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Connected person”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving the New Framework Supply Agreement
“Estimated Purchase Volume”	the estimated purchase volume of the Forage Grass to be purchased by each of the relevant dairy farm of the Buyer Group from the Seller Group each month
“Forage Grass”	alfafa, oat grass, silage corn and wheat straw
“Framework Supply Agreement”	the Framework Supply Agreement dated June 8, 2012 entered into between the Buyer and the Seller in relation to the sale and purchase of Forage Grass
“Group”	the Company and its subsidiaries
“Independent Shareholder”	any shareholder of the Company that will not be required under the Listing Rules to abstain from voting at the EGM
“Independent Third Party”	a company which is not a member of the Buyer Group

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Modern Farm”	現代牧業(集團)有限公司 (Modern Farming (Group) Co., Ltd.), a non-wholly owned subsidiary of the Company
“Mr. Qi”	Mr. Qi Xiaohang, the son of Ms. Gao Lina, an executive Director, Deputy Chairman and the Chief Executive Officer of the Company
“Ms. Deng”	Ms. Deng Yuan, the daughter of Mr. Deng Jiuqiang, an executive Director of the Company
“New Framework Supply Agreement”	the New Framework Supply Agreement dated October 10, 2012 entered into between the Buyer and the Seller in relation to the sale and purchase of Forage Grass
“Parties”	the Buyer and the Seller
“Qiushi”	秋實草業有限公司 (Qiushi Grass Industry Co. Ltd.), a limited liability company established in the PRC in September 2011 and is 18% owned by Modern Farm
“RFV index”	the relative feed value index, which has been widely used to determine the quality of a forage. It is based on the concept of potential digestible dry matter intake of a forage by an animal
“Seller”	Qiushi
“Seller Group”	Qiushi and its subsidiaries
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplying Pastures”	the pastures of the specified Seller Group under the New Framework Supply Agreement, which are located in Bengbu and Saibei

For and on behalf of the Board  
**China Modern Dairy Holdings Ltd.**  
**WOLHARDT Julian Juul**  
*Chairman*

Hong Kong, October 10, 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.*