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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)

ISSUE OF SUBSCRIPTION SHARES UNDER GENERAL MANDATE

THE SUBSCRIPTION

The Board is pleased to announce that on July 18, 2019 (after trading hours of the Stock Exchange), the Company entered into the Subscription Agreement with the Subscriber pursuant to which the Company has conditionally agreed to allot and issue, and the Subscriber or its designated subsidiary has conditionally agreed to subscribe for 276,228,409 Subscription Shares at the Subscription Price of HK\$1.3535 per Subscription Share.

The Subscription Shares represent (i) approximately 4.51% of the existing issued share capital of the Company as at the date of this announcement and (ii) approximately 4.31% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming that there will be no change in the share capital of the Company from the date of this announcement to the Closing Date save for the allotment and issue of the Subscription Shares).

The Subscription Shares will be allotted and issued under the General Mandate.

The gross proceeds from the Subscription will be approximately HK\$373.87 million (equivalent to approximately RMB329.26 million). The net proceeds from the Subscription (after deducting the expenses incurred in the Subscription) is estimated to be approximately HK\$373.79 million (equivalent to approximately RMB329.19 million).

Shareholders and potential investors should note that completion of the Subscription is subject to the fulfilment of certain conditions precedent. As the Subscription may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

A. THE SUBSCRIPTION AGREEMENT

The Board is pleased to announce that on July 18, 2019 (after trading hours of the Stock Exchange), the Company entered into the Subscription Agreement with the Subscriber pursuant to which the Company has conditionally agreed to allot and issue, and the Subscriber or its designated subsidiary has conditionally agreed to subscribe for 276,228,409 Subscription Shares at the Subscription Price of HK\$1.3535 per Subscription Share (equivalent to approximately RMB1.1920).

The principal terms of the Subscription Agreement are as follows:

Date

July 18, 2019 (after trading hours of the Stock Exchange)

Parties to the Subscription Agreement

- (i) the Company; and
- (ii) the Subscriber.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Subscriber and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Subscription Shares

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber or its designated subsidiary has conditionally agreed to subscribe for 276,228,409 Subscription Shares at the Subscription Price of HK\$1.3535 (equivalent to approximately RMB1.1920) per Subscription Share.

Assuming that there will be no change in the share capital of the Company from the date of this announcement to the Closing Date save for the allotment and issue of the Subscription Shares, the Subscription Shares represent:

- (i) approximately 4.51% of the existing issued share capital of the Company as at the date of this announcement; and
- (ii) approximately 4.31% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares.

The aggregate nominal value of the Subscription Shares is HK\$27,622,840.9.

Subscription Price

The Subscription Price of HK\$1.3535 (equivalent to approximately RMB1.1920) per Subscription Share represents:

- (i) a discount of approximately 2.63% to the closing price of HK\$1.3900 per Share as quoted on the Stock Exchange on the date of the Subscription Agreement;
- (ii) a premium of approximately 10.76% to the average closing price of approximately HK\$1.2220 per Share as quoted on the Stock Exchange for the last five (5) trading days up to and including the Last Trading Day; and
- (iii) a premium of approximately 11.95% to the average closing price of approximately HK\$1.2090 per Share as quoted on the Stock Exchange for the last ten (10) trading days up to and including the Last Trading Day.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Subscriber after taking into account the average closing price of the Shares for the last 20 trading days prior to the signing of the Subscription Agreement with premium of approximately 16.58%, the trading volume of the Shares and the future strategic cooperation between the Company and the Subscriber.

The gross proceeds from the Subscription will be approximately HK\$373.87 million (equivalent to approximately RMB329.26 million). The net Subscription Price per Subscription Share, after deducting the expense incurred in the Subscription, is estimated to be approximately HK\$1.3532 and the net proceeds from the Subscription is estimated to be approximately HK\$373.79 million (equivalent to approximately RMB329.19 million).

Conditions Precedent

The Completion is subject to the fulfilment or waiver (as the case may be) of the following Conditions Precedent:

- (a) the granting of the approval for the listing of, and permission to deal in the Subscription Shares by the Stock Exchange;
- (b) the passing of the Board resolutions required for the execution of the transactions contemplated under the Subscription Agreement by the Company in accordance with the Articles;

- (c) the passing of the board resolutions and shareholders resolutions required for the execution of the transactions contemplated under the Subscription Agreement and the Purchase by the Subscriber in accordance with the Subscriber's articles of association;
- (d) all necessary consents and approvals required to be obtained from the relevant governments, regulatory bodies (including but not limited to the Stock Exchange), banks, parties to the Subscription Agreement and/or any other parties in respect of the Subscription Agreement and the transactions contemplated thereunder having been obtained, including but not limited to the approval from the China Development and Reform Commission, the Foreign Exchange Administration, the Ministry of Commerce or other departments in respect of the Subscription having been obtained by the Subscriber and the Subscriber having registered or completed the filings with such bodies in respect of the Subscription and obtaining foreign exchange or cross-border RMB payment quota from banks and/or the State Foreign Exchange Administration of the PRC;
- (e) the Company, the Pledgor and the Subscriber or its designated subsidiary signing a tripartite agreement in respect of the Purchase (the terms and contents of the tripartite agreement shall be reasonably satisfactory to the Subscriber), and all the conditions precedent under the tripartite agreement have been fulfilled (except for the Completion), and the parties to the tripartite agreement have agreed to complete the transactions under the tripartite agreement simultaneously on the Closing Date;
- (f) (i) the Company's listing status on the main board of the Stock Exchange has not been revoked; (ii) the Company's Shares continue to be traded on the main board of the Stock Exchange for five (5) consecutive days before the Closing Date (except for other period of suspension of trading of the Shares on the main board of the Stock Exchange for which the Subscriber may agree in writing or any period of suspension of trading of the Shares on the main board of the Stock Exchange in connection with the transactions contemplated under the Subscription Agreement); and (iii) neither the Stock Exchange nor the SFC has indicated, before the Closing Date, that it will oppose to the continuation of the listing status of the Company on the main board of the Stock Exchange for reasons related to the transactions contemplated under the Subscription Agreement;
- (g) there being no incident, event, circumstance or change that has had or would potentially have any material adverse effect on the following aspects: the businesses, operations, prospects or financial positions of the Group or a significant part of the Group's properties or assets;

- (h) the warranties of the Company continuing to be true, accurate and not misleading on the date of the Subscription Agreement and the Closing Date;
- (i) the warranties of the Subscriber continuing to be true, accurate and not misleading on the date of the Subscription Agreement and the Closing Date; and
- (j) all agreements, obligations and conditions that the Company and the Subscriber shall perform and comply with on or before the Closing Date as stipulated by the Subscription Agreement have been performed and complied with by the Company and the Subscriber.

The conditions set out in (a), (b), (c) and (d) above are not waivable by the Company nor the Subscriber, and the failure in satisfying the conditions set out in (a) to (d) above on or before the Longstop Date shall not be deemed to be a breach of the Subscription Agreement by either party. All other conditions set out above can be waived in writing through negotiation between the Company and the Subscriber.

Completion

Completion will take place on the fifth Business Day following the date on which all the Conditions Precedent (except those expressed to be satisfied on the Closing Date) have been satisfied (or waived, if applicable), or on such other date as the Company and the Subscriber may agree in writing. If the Conditions Precedent have not been satisfied or waived on or before the Longstop Date or any Conditions Precedent expressed to be satisfied on the Closing Date cannot be satisfied on the Closing Date, or if either party cannot perform its respective obligations under the Subscription Agreement, then the non-defaulting party (i) shall have the right to postpone the Completion to such later date but in any case not later than 28 days from the Closing Date, or (ii) can terminate the Subscription Agreement and would not be held accountable for the defaulting party.

Ranking

The Subscription Shares, when issued and fully paid, will rank *pari passu* in all respects among themselves and with all other Shares in issue at the time of allotment and issue of the Subscription Shares.

Lock-up Undertaking

The Subscriber undertakes that it shall not, without the prior written consent from the Company, directly or indirectly dispose the Subscription Shares or any interests in the entities or corporations holding the Subscription Shares at any time for a period of twelve (12) months from the Closing date (including the Closing Date). The Subscriber will not enter into any transactions dealing with the Subscription Shares or the interests in any entities or corporations mentioned above, or any agreements leading to the conclusion of such transactions (or any transactions of equal economic effect), or to publicly disclose such intention. This undertaking does not preclude the Subscriber from pledging the Shares beneficially owned by the Subscriber or its interest in the entities or corporations mentioned above for capital raising purposes.

Nomination of Director

Pursuant to the Subscription Agreement, the Subscriber or its designated subsidiary has the right to nominate a qualified candidate to be appointed as a Director (the “**Nominated Director**”) upon the Completion and the closing of the Purchase. The Company shall use its best endeavors to procure the Nominated Director to be appointed as a Director in accordance with the Articles, the Listing Rules and any other applicable laws and regulations.

The Company will make an announcement in respect of the appointment of the Nominated Director in accordance with the Listing Rules as and when appropriate and make the required filings and notifications in accordance with the requirements of the applicable laws and regulations.

B. THE PURCHASE

As a Condition Precedent, the Subscriber will sign a tripartite agreement with the Company and the Pledgors in respect of the Purchase. As disclosed in note 26 of the Company’s 2018 Annual Report, certain Pledgors have pledged a total of 318,697,354 Collateral Shares to the Company, and the Company has the right to enforce such pledge at any time.

Collateral Shares

The Subscriber or its designated subsidiary has agreed to purchase 318,697,354 Collateral Shares at the Purchase Price of HK\$1.3535 (equivalent to approximately RMB1.1920) per Collateral Share.

The Collateral Shares represent (i) approximately 5.20% of the existing issued share capital of the Company as at the date of this announcement and (ii) approximately 4.97% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming that there will be no change in the share capital of the Company from the date of this announcement to the Closing Date save for the allotment and issue of the Subscription Shares).

Purchase Price

The Purchase Price per Collateral Share is HK\$1.3535 (equivalent to approximately RMB1.1920) and was determined on the same basis as the Subscription Price. The gross proceeds from the Purchase will be approximately HK\$431.35 million (equivalent to approximately RMB379.89 million).

The Purchase is expected to be completed at the same time as the Subscription. Upon completion of the Purchase, the Company expects to recognize a reversal of impairment loss of trade receivables of approximately HK\$180 million (equivalent to approximately RMB160 million) for the year ended 31 December 2019, resulting from the increase of cash flows that the Group expects to receive from the Collaterals (as defined in the Company's 2018 annual report). The reversal of impairment loss is unaudited and is subject to the final review of the Company's auditor.

C. STRATEGIC COOPERATION

The Company and the Subscriber will enter into a raw milk supply agreement within thirty (30) days upon the completion of the Subscription and the Purchase, and the agreement shall include the following terms (or no less than the following):

- a. the Company will supply raw milk to the Subscriber according to an agreed ratio; and
- b. the price of raw milk is determined in accordance with the pricing principle which the Company adopts when its existing major customer purchase raw milk from the Company.

D. INFORMATION ON THE GROUP AND THE SUBSCRIBER

(a) 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 1.27 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.

(b) The Subscriber

The Subscriber, New Hope Dairy Co., Ltd., is a leading regional dairy products (mainly refrigerated dairy products) supplier. The Subscriber mainly engages in the R&D, manufactory, and sales of dairy products and milk beverages. The Subscriber has built an integrated urban dairy group with the “Fresh Strategy”, on its core value and based its business in the Southwestern China and is well developed in East, Central and North of China. Currently, The Subscriber consists of 36 holding subsidiaries, 13 major dairy brands, 14 dairy processing plants, and 11 dairy farms.

E. GENERAL MANDATE TO ISSUE THE SUBSCRIPTION SHARES

The Subscription Shares will be allotted and issued under the General Mandate. The General Mandate were granted the Directors to exercise all powers of the Company to allot and issue up to 1,226,281,341 Shares, representing 20% of the issued share capital of the Company as at the date of the AGM. Since the date of the AGM and up to and including the date of this announcement, no Shares have been allotted and issued pursuant to the General Mandate. The General Mandate is sufficient for the allotment and issue of the Subscription Shares and the allotment and issue of the Subscription Shares is not subject to the Shareholders’ approval.

F. APPLICATION FOR LISTING

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

G. REASONS FOR AND BENEFIT OF THE SUBSCRIPTION TO THE COMPANY

The Group is currently the largest dairy farming operator and fresh raw milk producer in the PRC and supplies raw milk in its ordinary and usual course of business whilst the Subscriber principally engages in dairy products production businesses and purchases raw milk in its ordinary and usual course of business. Hence, the Directors consider that the investment by the Subscriber enables the Company to achieve the following synergies: (i) raise capitals to enable the Company to appropriately increase its herd size, maintain reasonable cattle herd structure, increase yield per unit and maintain a stable growth of raw milk yield; (ii) strengthen the cooperation between the Subscriber and the Company so as to maintain a stable customer base of the raw milk of the Company; (iii) decrease the amount of liabilities borne by the Company and control the Company's financial risks; and (iv) realize the value of the pledged Collateral Shares.

The Directors are of the view that the Subscription is in the interests of the Company and the Shareholders as a whole and the allotment and issue of the Subscription Shares are appropriate means of raising additional capital for the business operations of the Group since it will provide the Company with immediate funding and the shareholders base of the Company will be broadened. The Directors consider that the terms of the Subscription Agreement are on normal commercial terms and are fair and reasonable.

H. USE OF PROCEEDS

The gross proceeds from the Subscription and the Purchase will be, in aggregate, approximately HK\$805.21 million (equivalent to approximately RMB709.15 million). The net proceeds from the Subscription and the Purchase (after deducting the expenses incurred) is estimated to be approximately HK\$804.62 million (equivalent to approximately RMB708.63 million). The Company intends to apply such net proceeds for the following purposes: (i) approximately 50% (i.e. approximately HK\$402.31 million) for the expansion of new farm and herd size; (ii) approximately 30% (i.e. approximately HK\$241.39 million) for repayment of borrowings; (iii) the remaining balance of approximately 20% (i.e. approximately HK\$160.92 million) for the Group's general working capital and for other general corporate purposes.

I. EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE-MONTH PERIOD

The Company has not carried out any equity fund raising activity in the twelve (12) months immediately prior to the date of this announcement.

J. EFFECTS ON SHAREHOLDING STRUCTURE

The shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately following the Completion and the Purchase being fully executed (assuming that there is no change in the issued share capital of the Company from the date of this announcement and up to the Closing Date) are summarized as follows:

	As at the date of this announcement		Immediately following the Completion and the Purchase being fully executed	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
	(Approximately)		(Approximately)	
Jinmu Holdings Co Ltd.	221,581,733 ⁽¹⁾	3.61	221,581,733 ⁽¹⁾	3.46
Ms. GAO Lina ⁽³⁾	9,101,560	0.15	9,101,560	0.14
Mr. HAN Chunlin ⁽³⁾	2,314,204	0.04	2,314,204	0.04
China Mengniu Dairy Company Limited	628,464,218	10.25	628,464,218	9.81
Future Discovery Limited	2,407,866,412	39.27	2,407,866,412	37.58
Central Huijin Investment Ltd.	363,903,000	5.94	363,903,000	5.68
BOCI Financial Products Limited	325,535,782	5.31	325,535,782	5.08
Nam Tung (Macao) Investment Limited	1,500,000	0.02	1,500,000	0.02
Public				
– The Subscriber	–	–	594,925,763	9.28
– Other public Shareholders	<u>2,171,139,797</u>	<u>35.41</u>	<u>1,852,442,443</u>	<u>28.91</u>
Total	<u>6,131,406,706</u>	<u>100.00</u>	<u>6,407,635,115</u>	<u>100.00</u>

Notes:

- (1) Ms. Gao holds approximately 49.12% of the interests in Jinmu Holdings Co Ltd. (“**Jinmu**”). Hence, the 221,581,733 Shares owned by Jinmu are not held by the public.
- (2) The percentages are subject to rounding difference, if any.
- (3) Both Ms. Gao Lina and Mr. Han Chunlin are executive director of the Company.

Shareholders and potential investors should note that completion of the Subscription is subject to the fulfilment of certain conditions precedent. As the Subscription may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

DEFINITIONS

Unless the context requires otherwise, the following terms shall have the following meanings:

“AGM”	the annual general meeting of the Company held on June 6, 2019
“Articles”	the articles of association of the Company (as amended from time to time)
“Board”	the board of Directors;
“Business Day”	a day on which licensed banks are open for business in Hong Kong and PRC, other than Saturday, Sunday, public holiday, or a day of which “black rainstorm warning” or tropical cyclone warning signal 8 or above is hoisted in Hong Kong at any time between 9:00 am and 5:00 pm.
“Closing Date”	the date on which the Completion shall take place, which shall be the fifth Business Day after the date on which all the Conditions Precedent have been satisfied or waived or on such other date as the Company and the Subscriber may agree
“Collateral Share(s)”	the Shares pledged to the Company by the Pledgors in respect of the trade receivables due from certain distributors of the Company
“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)
“Completion”	The completion of the Subscription

“Condition Precedent”	the conditions precedent to the Completion, as set out under the paragraph headed “The Subscription Agreement – Conditions Precedent”
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“General Mandate”	the mandate granted to the Directors by the Shareholders at the AGM to allot and issue new Shares not exceeding 20% of the then issued share capital of the Company as at the date of the AGM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars
“Last Trading Day”	July 17, 2019, being the last trading day immediately prior to the entering into of the Subscription Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Exchange of Hong Kong Limited
“Longstop Date”	October 31, 2019
“Pledgor(s)”	certain Shareholders who have pledged the Collateral Shares in favour of the Company and granted the Company the right to enforce the pledge in relation to the Collateral Shares at any time
“PRC”	the People’s Republic of China and for the sole purpose of this announcement shall exclude Hong Kong, Macau Special Administrative Region and Taiwan
“Purchase”	the purchase of the Collateral Shares by the Subscriber from the Pledgors
“Purchase Price”	the purchase price of HK\$1.3535 per Collateral Share
“RMB”	Renminbi

“SFC”	the Securities and Futures Commission
“Share(s)”	ordinary share(s) of par value HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	New Hope Dairy Co., Ltd., a limited liability company incorporated under the laws of the PRC and listed on the Shenzhen Stock Exchange (Stock code: 002946)
“Subscription”	the subscription of the Subscription Shares by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated July 18, 2019 entered into between the Company and the Subscriber in relation to the Subscription
“Subscription Price”	the subscription price of HK\$1.3535 per Subscription Share
“Subscription Share(s)”	an aggregate total of 276,228,409 new Shares to be allotted and issued by the Company to the Subscriber pursuant to the terms and conditions of the Subscription Agreement
“%”	per cent.

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

Hong Kong, July 18, 2019

In this announcement, translation of RMB into HK\$ is based on the exchange rate of HK\$1.0000: RMB0.8807. No representation is made that any amounts in RMB and HK\$ can be or could have been converted at the above exchange rate or any other rates.

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 of the board), 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*