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## **CHINA ZHONGDI DAIRY HOLDINGS COMPANY LIMITED**

**中國中地乳業控股有限公司**

*(a company incorporated under the laws of the Cayman Islands with limited liability)*

(Stock code: 1492)

### **REVISION OF ANNUAL CAPS AND CONTINUING CONNECTED TRANSACTIONS**

#### **Background**

As the Board expects that the Existing Caps under the Existing Construction Services Agreements for the year ending 31 December 2016 will no longer be sufficient and that the Group intends to construct New Farms, on 28 October 2016, the Company and Urban Construction entered into the Supplemental Construction Services Framework Agreement, pursuant to which, (i) the Company and Urban Construction conditionally agreed to amend or supplement the Existing Construction Services Agreements in relation to, among other things, the scope of work and services and the amount of service fees under the Existing Construction Services Agreements; and (ii) the Company conditionally agreed to engage Urban Construction to provide construction and related services to the Group in respect of the New Farm.

#### **The Supplemental Construction Services Framework Agreement**

The Company and Urban Construction have entered into the Supplemental Construction Services Framework Agreement on 28 October 2016.

The Supplemental Construction Services Framework Agreement (i) shall take effect upon execution and, where applicable, sealed by the authorized representatives or legal representatives of the parties, and obtaining approvals from internal authorities of the parties under their effective articles of association and the Listing Rules (including but not limited to obtaining approval from the Independent Shareholders); and (ii) will expire on 31 December 2016.

The proposed Revised Caps, on an aggregated basis, for the year ending 31 December 2016 under the Supplemental Construction Services Agreement amount to RMB596.864 million.

### **Implications under the Listing Rules**

As at the date of this announcement, Urban Construction was beneficially owned by Mr. Zhang Dashe (張大社), the elder brother of Mr. Zhang Jianshe, as to 51% and is therefore an associate of Mr. Zhang Jianshe. Accordingly, Urban Construction is a connected person of the Company, and the transactions contemplated under the Supplemental Construction Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) exceed 5%, the transactions contemplated under the Supplemental Construction Services Framework Agreement constitute non-exempt continuing connected transactions of the Company and are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **I. THE SUPPLEMENTAL CONSTRUCTION SERVICES FRAMEWORK AGREEMENT**

### **(1) Background**

Reference is made to the section headed "Connected Transaction — Non-exempt Continuing Connected Transactions" of the Prospectus in relation to, among other things, the continuing connected transactions between the Group and Urban Construction under the Existing Construction Services Agreements, pursuant to which, Urban Construction continues to provide the Group with construction and related services after the Listing, including but not limited to, construction of cowshed, office units and silage pit, sewage treatment, waste treatment and cablecasting.

As disclosed in the Prospectus, the transactions contemplated under the Existing Construction Services Agreements are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company applied for, and the Stock Exchange had granted to it, a waiver exempting the Company from strict compliance with the announcement and independent shareholders' approval requirements under the Listing Rules, subject to the conditions that, inter alia, the aggregate values of the continuing connected transaction under the Existing Construction Services Agreements for each financial year do not exceed the Existing Caps.

As the Board expects that the Existing Caps under the Existing Construction Services Agreements for the year ending 31 December 2016 will no longer be sufficient and that the Group intends to construct the New Farm, on 28 October 2016, the Company and Urban Construction entered into the Supplemental Construction Services Framework Agreement, pursuant to which, (i) the Company and Urban Construction conditionally agreed to amend or supplement the Existing Construction Services Agreements in relation to, among other things, the scope of work and services and the amount of service fees under the Existing Construction Services Agreements; and (ii) the Company conditionally agreed to engage Urban Construction to provide construction and related services to the Group in respect of the New Farm.

## **(2) The Supplemental Construction Services Framework Agreement**

The Company and Urban Construction have entered into the Supplemental Construction Services Framework Agreement on 28 October 2016. The principal terms of the Supplemental Construction Services Framework Agreement are summarised below:

### ***Date***

28 October 2016

### ***Parties***

- (i) the Company (for itself and on behalf of its subsidiaries) (as services recipient);  
and
- (ii) Urban Construction (as services provider)

### ***Term and effectiveness***

The Supplemental Construction Services Framework Agreement (i) shall take effect upon execution and, where applicable, being sealed by the authorized representatives or legal representatives of the parties, and obtaining approvals from internal authorities of the parties under their effective articles of association and the Listing Rules (including but not limited to obtaining approval from the Independent Shareholders) and (ii) will expire on 31 December 2016.

### ***Subject matter***

Pursuant to the Supplemental Construction Services Framework Agreement,

- (i) the Company and Urban Construction have agreed to amend or supplement the Existing Construction Services Agreements to the effect that the scope of work

and services shall be extended to, among other things, construction of cowshed, office units, silage pit, roads and walls, sewage treatment, waste treatment, cablecasting and water drainage and that the amount of service fees under the Existing Construction Services Agreements shall be adjusted accordingly; and

- (ii) Urban Construction has agreed to and the Group has agreed to employ Urban Construction to provide construction and related services (including but not limited to construction of cowshed, office units, silage pit, roads and walls, sewage treatment, waste treatment, cablecasting and water drainage) to the Group in respect of the New Farms, subject to, among other things, the internal control procedures provided thereunder, the details of which are set out in the paragraph headed “- (5) Internal Control Procedures” below.

### ***Pricing***

The revised service fees in respect of the construction and related services for the Existing Farms shall be determined based on the additional amount of work and additional costs incurred or to be incurred by Urban Construction, whereas the service fees in respect of the construction and related services for the New Farm shall be based on the relevant quotations in the bidding documents issued by Urban Construction to the Group during the bidding process. Both the revised service fees in respect of the construction and related services for the Existing Farms and the service fees in respect of the construction and related services for the New Farm shall be provided in the definitive construction services agreements to be entered into between relevant members of the Group and Urban Construction pursuant to the Supplemental Construction Services Framework Agreement.

In addition, the construction materials procured and purchased by Urban Construction as part of the construction services provided to the Group shall be included in the total construction fees payable by the Group to Urban Construction. In connection therewith, the parties have agreed that:

- (i) Urban Construction shall provide supporting materials to the Company to prove the transparency of its procurement process, inform the Company regularly of the costs and progress in procuring supplies of raw materials, engaging sub-contractors and other matters relevant to the construction of the farms and/or import quarantine farms;



No.	Name of dairy farm/import quarantine farm	Historical transaction amount for the year ended	Existing Caps for the year ending	Revised Caps for the year ending
		31 December 2015	31 December 2016	31 December 2016
			<i>RMB'000</i>	
2	Tianjin Farm	13,815	35,046	83,964
3	Ningxia Helan Farm (Phase II)	64,795	27,773	150,000
4	Shanxi Tianzhen Farm	80,900	26,997	130,000
5	Inner Mongolia Shangdu Farm (Phase II)	58,818	10,392	45,200
6	Hebei Wen'an Farm	63,545	63,643	150,000
7	Beijing Farm <sup>(1)</sup>	—	—	5,000
8	Beihai Import Quarantine Farm <sup>(2)</sup>	—	—	600
9	Liaoning Kuandian Farm (Phase II)	—	—	30,000
	<b>Total</b>	<b><u>288,026</u></b>	<b><u>170,058</u></b>	<b><u>596,864</u></b>

*Notes:*

- (1) Beijing Farm (also known as Beijing Shunyi Farm as described in the section headed “Business” of the Prospectus) is an existing dairy farm operated by the Group, which commenced commercial milk production in the fourth quarter of 2011.
- (2) Beihai Import Quarantine Farm (also known as Beijing Import Quarantine Farm as described in the section headed “Business” of the Prospectus) is an existing import quarantine farm operated by the Group, which commenced commercial milk production in the fourth quarter of 2009.

#### **(4) Basis for the Revised Caps**

In arriving at the abovementioned Revised Caps under the Supplemental Construction Services Framework Agreement, the Directors have taken into account the following factors:

- (i) the Existing Caps contemplated under the Existing Construction Services Agreements for the year ending 31 December 2016;
- (ii) the proposed extension of the scope of work and services and increase in the amount of service fees payable under the Existing Construction Services Agreements in respect of construction and related services for the Existing Farms for the year ending 31 December 2016 due to the increased needs of the Group in business development, milk production, farm expansion, maintenance and construction; and
- (iii) the estimated amount of service fees payable under the Supplemental Construction Services Framework Agreement in respect of construction and related services for the New Farm for the year ending 31 December 2016.

#### **(5) Internal Control Procedures**

To safeguard the interests of the Group, the Group has adopted and will continue to adhere to the following internal control procedures in respect of the construction and related services provided or to be provided by Urban Construction under the Existing Construction Services Agreements and the Supplemental Construction Services Framework Agreement, respectively.

##### ***Construction and Related Services in respect of Existing Farms***

The Company has adopted and will continue to adhere to the selection and review mechanism when obtaining construction and related services from Urban Construction in respect of the Existing Farms under the Existing Construction Services Agreements (as supplemented by the Supplemental Construction Services Framework Agreement), the details of which are set out in the section headed “Connected Transaction — Non-exempt Continuing Connected Transactions — Selection and review mechanism” of the Prospectus.

### ***Construction and Related Services in respect of the New Farm***

The Company will adopt and adhere to the selection and review mechanism when obtaining construction and related services from Urban Construction in respect of the New Farm pursuant to the Supplemental Construction Services Framework Agreement:

- (i) the Company will form an assessment committee, which comprises five to seven members, including the key employees of the Company responsible for administration, finance, internal audit and engineering and, where necessary, external technical specialists and economic experts, to review the pricing, terms and conditions of the bidding and to ensure the compliance with relevant requirements of government authorities;
- (ii) the assessment committee will set up an assessment mechanism for potential bidders in relation to various criteria, including the offer price and the quality of construction services, the scale of construction projects, the expected timeframe and scope of services and the assessment mechanism shall be reviewed and approved by the independent non-executive Directors;
- (iii) the management team responsible for the New Farm will consolidate a list of potential bidders according to the specific requirements of the assessment committee in relation to the construction projects and the Group will issue tender invitations to at least three qualifying bidders from the list of potential bidders;
- (iv) the assessment committee will assess and score the bidders based on the aforementioned assessment mechanism and various factors including, but not limited to, the offer price, the expected timeframe of completion of the construction project and the credentials of the bidders; and
- (v) the average scores of the bidders will be used by the assessment committee as an important indicator for the selection of construction contractor.

### **(6) Reasons for and Benefits of the Supplemental Construction Services Framework Agreement**

Urban Construction has been providing construction services to the Group since 2008 and has provided construction services for most of the dairy farms and import quarantine farms of the Group. Based on the established long-term cooperation relationship between Urban Construction and the Group, Urban Construction has a track record of providing reliable, efficient and satisfactory construction services to the Group, which has enabled the Group to complete the development of its dairy farms and import quarantine farms within a significantly shorter timeframe than its

competitors. As compared to many other construction contractors who are independent third parties, Urban Construction has more extensive experience in the construction of animal husbandry-related projects with the Group and it generally has better and more efficient communication with the Group and more thorough understanding of the requirements of the Group in this regard. Furthermore, there had not been any material disputes between the Group and Urban Construction with regard to settlement, construction progress or quality of the construction work as at the date of this announcement. In assessing the quality of the work and services delivered by Urban Construction, the Directors are of the view that Urban Construction has consistently delivered, on a timely basis, work and services that meet the quality standards satisfactory to the Group.

The Revised Caps for the transactions contemplated under the Supplemental Construction Services Framework Agreement have been determined by taking into consideration various factors including but not limited to the needs of the Group in relation to business development, milk production and farm construction, as further described in the section headed “— (4) Basis for the Revised Caps” above. The Directors believe that the Existing Caps may not be sufficient for the Group for the year ending 31 December 2016. In addition, the transactions contemplated under the Supplemental Construction Services Framework Agreement will continue to facilitate the overall operations and growth of the Group’s business.

The terms of the Supplemental Construction Services Framework Agreement have been agreed upon after arm’s length negotiations between the Company and Urban Construction.

The Directors (other than the independent non-executive Directors, who will give their recommendation after taking into consideration the advice of the Independent Financial Adviser) are of the view that (i) the continuing connected transactions contemplated under the Supplemental Construction Services Framework Agreement will be carried out in the ordinary and usual course of business of the Group; (ii) the terms of the Supplemental Construction Services Framework Agreement are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole; and (iii) the continuing connected transactions contemplated under the Supplemental Construction Services Framework Agreement (together with the Revised Caps) are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

## **(7) Implications under the Listing Rules**

As at the date of this announcement, Urban Construction was beneficially owned by Mr. Zhang Dashe, the elder brother of Mr. Zhang Jianshe, as to 51% and is therefore an associate of Mr. Zhang Jianshe. Accordingly, Urban Construction is a connected person of the Company, and the transactions contemplated under the Supplemental Construction Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratio(s) (as defined in Rule 14.07 of the Listing Rules) exceed 5%, the transactions contemplated under the Supplemental Construction Services Framework Agreement constitute non-exempt continuing connected transactions of the Company and are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **II. DIRECTORS' CONFIRMATION**

Mr. Zhang Jianshe, Mr. Liu Dai and Mr. Zhang Kaizhan, each of whom is a Director, are also the brother, father and brother-in-law of the beneficial owners of Urban Construction, respectively. Accordingly, each of Mr. Zhang Jianshe, Mr. Liu Dai and Mr. Zhang Kaizhan are considered to have material interests in the transactions contemplated under the Supplemental Construction Services Framework Agreement, and have abstained from voting on the relevant resolutions of the Board approving the Supplemental Construction Services Framework Agreement, the transactions contemplated thereunder and the Revised Caps. Save as disclosed above, none of the Directors has a material interest in the transactions contemplated under the Supplemental Construction Services Framework Agreement or is required to abstain from voting on the relevant resolutions of the Board.

Based on the factors set out above, the Directors (other than the independent non-executive Directors, who will give their recommendations after taking into consideration the recommendation of the Independent Financial Adviser) recommends that the Independent Shareholders to vote in favour of the resolution in respect of the Supplemental Construction Services Framework Agreement, the transactions contemplated thereunder and the proposed Revised Caps to be proposed at the EGM.

### **III. THE EGM**

At the EGM, an ordinary resolution will be proposed for the Shareholders to consider and, if thought fit, approve the Supplemental Construction Services Framework Agreement, the transactions contemplated thereunder and the Revised Caps for the year ending 31 December 2016.

In accordance with the Listing Rules, YeGu Investment, Green Farmlands Group, SiYuan Investment and Tai Shing, being Shareholders and companies controlled by Mr. Zhang Jianshe, Mr. Zhang Kaizhan and Mr. Liu Dai, each of whom is a Director who has a material interest in and therefore abstained from voting on the relevant resolutions of the Board, will abstain from voting at the EGM on the resolution in relation to the Supplemental Construction Services Framework Agreement, the transactions contemplated thereunder and the Revised Caps. As at the date of this announcement, YeGu Investment, Green Farmlands Group, SiYuan Investment and Tai Shing, held and controlled the voting rights of an aggregate of 875,068,000 Shares, representing approximately 40.25% of the total issued share capital of the Company.

A circular containing, among other things, (i) further details of the Supplemental Construction Services Framework Agreement, the transactions contemplated thereunder and the Revised Caps; (ii) a letter from the Independent Board Committee; and (iii) a letter setting out the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, together with the notice of the EGM, will be despatched to the Shareholders on or before 16 November 2016.

### **IV. GENERAL INFORMATION**

The Company, through its subsidiaries, is principally engaged in business operations including raising and breeding dairy cows, producing and selling premium raw milk, importing and selling dairy cows of quality breeds and breeding stock, and import trading business in cows, alfalfa hay and other animal husbandry-related products.

Urban Construction is a company established under the laws of the PRC on 28 April 1994. In April 2000, it was converted into a limited liability company controlled by individuals and obtained its business license which covers a scope of work that includes contracted construction works, among other construction related businesses. Urban Construction is principally engaged in providing construction services for farms, residential and industrial buildings.

## V. DEFINITIONS

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

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	China ZhongDi Dairy Holdings Company Limited (中國中地乳業控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 24 April 2014, the Shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under Chapter 14A of the Listing Rules
“Director(s)”	the director(s) of the Company
“Existing Caps”	the existing annual caps for the transactions contemplated under the Existing Construction Services Agreements
“Existing Construction Services Agreements”	the construction services agreements entered into between relevant members of the Group and Urban Construction before the Listing, pursuant to which, Urban Construction provided the Group with construction and related services including but not limited to construction of cowshed, office units and silage pit, sewage treatment, waste treatment and cablecasting
“Existing Farms”	the existing dairy farms and import quarantine farms operated by the Group, including Hebei Tangshan Import Quarantine Farm, Tianjin Farm, Ningxia Helan Farm (Phase II), Shanxi Tianzhen Farm, Inner Mongolia Shangdu Farm (Phase II), Hebei Wen’an Farm, Beijing Farm and Beihai Import Quarantine Farm

“EGM”	the extraordinary general meeting of the Company to be convened and held on 2 December 2016, and any adjournment thereof for the purpose of considering, and if thought fit, approving the Supplemental Construction Services Framework Agreement, the transactions contemplated thereunder and the Revised Caps
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board comprising all of the independent non-executive Directors which was formed to advise the Independent Shareholders in respect of the Supplemental Construction Services Framework Agreement, the transactions contemplated thereunder and the Revised Caps
“Independent Financial Adviser” or “China Investment Securities”	China Investment Securities International Capital Limited (中投證券國際融資有限公司), the Company’s independent financial adviser and a corporation licensed to conduct Type 6 (advising on corporate finance) regulated activity under the SFO
“Independent Shareholders”	Shareholders who are not required by the Listing Rules to abstain from voting on the resolution to be proposed at the EGM
“independent third party”	a person or entity who is not considered a connected person of the Company under the Listing Rules
“Listing”	the listing of the Shares on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“New Farm”	the new dairy farm to be constructed by the Group, namely Liaoning Kuandian Farm (Phase II)
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus of the Company dated 20 November 2015

“Revised Caps”	the proposed revised annual caps for the year ending 31 December 2016 for the transactions contemplated under the Supplemental Construction Services Framework Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	share(s) with par value of US\$0.00001 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“SiYuan Investment”	SiYuan Investment Company Limited, a company incorporated as an exempted company with limited liability in the Cayman Islands on 16 April 2014 and controlled by Mr. Zhang Kaizhan, an executive Director
“Supplemental Construction Services Framework Agreement”	the framework agreement entered into between the Company and Urban Construction on 28 October 2016 in relation to, among other things, the proposed amendments or supplements to the Existing Construction Services Agreements and the construction and related services in respect of the New Farm
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tai Shing”	Tai Shing Company Limited, a company incorporated as an exempted company with limited liability in the Cayman Islands on 16 April 2014 and controlled by Mr. Liu Dai, a non-executive Director
“Urban Construction”	Beijing Urban Construction Engineering Company Limited* (北京城股建設工程有限公司), a company established under the laws of the PRC on 28 April 1994, which is an associate of Mr. Zhang Jianshe, an executive Director, and therefore a connected person of the Company

“US\$”	United States dollars, the lawful currency of the United States of America
“YeGu Investment”	YeGu Investment Company Limited, a company incorporated as an exempted company with limited liability in Cayman Islands on 16 April 2014 and controlled by Mr. Zhang Jianshe, an executive Director
“%”	per cent.

On behalf of the Board  
**China ZhongDi Dairy Holdings Company Limited**  
**Zhang Jianshe**  
*Chairman*

Hong Kong, 28 October 2016

*As at the date of this announcement, the executive directors of the Company are Mr. Zhang Jianshe and Mr. Zhang Kaizhan; the non-executive directors of the Company are Mr. Liu Dai, Mr. Du Yuchen, Mr. Li Jian and Ms. Yu Tianhua; the independent non-executive directors of the Company are Prof. Li Shengli, Dr. Zan Linsen and Mr. Joseph Chow.*

\* *For identification purpose only*