



**CHINA ZHONGDI DAIRY HOLDINGS COMPANY LIMITED**

**中國中地乳業控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1492)**

*Executive Directors:*

Mr. Zhang Jianshe  
Mr. Zhang Kaizhan

*Non-executive Directors:*

Mr. Liu Dai  
Mr. Du Yuchen  
Mr. Li Jian  
Ms. Yu Tianhua

*Independent non-executive Directors:*

Prof. Li Shengli  
Dr. Zhang Shengli  
Mr. Zhang Juying Jerry

*Registered office in the Cayman Islands:*

PO Box 309  
Ugland House  
Grand Cayman, KY1-1104  
Cayman Islands

*Principal place of business in the PRC:*

10th Floor  
Block A, Times Fortune Compound  
No. A6, Shuguang Xili  
Chaoyang District  
Beijing  
The PRC

*Place of business in Hong Kong:*

20/F, 238 Des Voeux Road Central  
Hong Kong

18 January 2021

*To the Shareholders*

Dear Sir/Madam,

**MANDATORY CONDITIONAL CASH OFFER  
BY CLSA LIMITED  
FOR AND ON BEHALF OF WHOLESOME HARVEST LIMITED  
TO ACQUIRE ALL THE ISSUED SHARES OF  
CHINA ZHONGDI DAIRY HOLDINGS COMPANY LIMITED  
(OTHER THAN THOSE ALREADY OWNED  
BY WHOLESOME HARVEST LIMITED)**

**INTRODUCTION**

On 27 September 2020, the Offeror and the Subscribers entered into the Share Subscription Agreement, pursuant to which Jingang Trade conditionally agreed to (i) transfer 432,641,522 Shares legally and beneficially held by it; and (ii) contribute a capital injection of HK\$1,659,738,400 to the Offeror, which is equal to the total value of 1,466,200,000 Shares

subject to the Offer (representing approximately 56.25% of the total issued share capital of the Company as at the Latest Practicable Date) calculated based on the Offer Price of HK\$1.132, in exchange for 1,898,841,522 ordinary shares issued by the Offeror. Zhang Group conditionally agreed to transfer 707,878,000 Shares beneficially held by Zhang Group, comprising (i) 392,088,000 Shares directly owned by YeGu Investment; and (ii) 315,790,000 Shares directly owned by Green Farmlands, to the Offeror in exchange for 707,878,000 ordinary shares issued by the Offeror to YeGu Investment. The transfer and subscription price per share of the Offeror was HK\$1.132 per share, equivalent to the Offer Price. Completion took place on 11 January 2021.

Immediately prior to Completion, the Offeror was not interested in any Shares and the sole shareholder of the Offeror, being Jingang Trade, was holding 432,641,522 Shares, representing approximately 16.6% of the total issued share capital of the Company. As Completion has taken place, as at the Latest Practicable Date, the Offeror owned an aggregate of 1,140,519,522 Shares, representing approximately 43.75% of the issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make a mandatory conditional cash offer for all the issued Shares (other than those already owned by the Offeror).

Further terms and the procedures of acceptances of the Offer are set out in the “Letter from CLSA Limited” and Appendix I to this Composite Document and the accompanying Form of Acceptance. The purpose of this Composite Document is to provide you with, among other things, information relating to the Company and the Offer, the recommendation of the Independent Board Committee to the Independent Shareholders and the “Letter from the Independent Financial Adviser” to the Independent Board Committee in relation to the Offer.

## **THE INDEPENDENT BOARD COMMITTEE AND THE INDEPENDENT FINANCIAL ADVISER**

Pursuant to Rule 2.1 of the Takeovers Code, the Independent Board Committee, comprising all non-executive Directors, namely Mr. Liu Dai, Mr. Du Yuchen, Mr. Li Jian and Ms. Yu Tianhua and independent non-executive Directors, namely Prof. Li Shengli, Dr. Zhang Shengli and Mr. Zhang Juying Jerry, who have no direct or indirect interest in the Offer, has been established to make recommendations on whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer.

Opus Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee on whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer.

## **THE OFFER**

As set out in the “Letter from CLSA Limited” contained in this Composite Document, CLSA Limited is making the Offer on behalf of the Offeror in compliance with the Takeovers Code on the following basis:

For each Offer Share ..... HK\$1.132 in cash

Further details of the Offer, including, among other things, the terms and conditions and the procedures for acceptance and settlement are set out in the “Letter from CLSA Limited” in this Composite Document, Appendix I to this Composite Document and the accompanying Form of Acceptance.

### Securities of the Company

As at the Latest Practicable Date, the Company had 2,606,719,522 Shares in issue. The Company does not have any outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares and has not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares. As at the Latest Practicable Date, the Company had not granted any share option pursuant to the share option scheme adopted by the Company dated 28 October 2015.

### INFORMATION ON THE GROUP

The Company was incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange. The Group 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.

Set out below is a summary of the audited financial information of the Group for each of the two financial years ended 31 December 2018 and 2019 as extracted from the annual report of the Company for the year ended 31 December 2019 and the unaudited financial information of the Group for the six months ended 30 June 2020 as extracted from the interim report of the Company for the six months ended 30 June 2020:

	<b>For the year ended</b>		<b>For the six</b>
	<b>31 December</b>		<b>months</b>
	<b>2019</b>	<b>2018</b>	<b>ended</b>
	<b>Results after</b>	<b>Results after</b>	<b>30 June</b>
	<b>biological</b>	<b>biological</b>	
	<b>fair value</b>	<b>fair value</b>	
	<b>adjustments</b>	<b>adjustments</b>	<b>Results after</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<b>biological</b>
	<i>(audited)</i>	<i>(audited)</i>	<b>fair value</b>
			<b>adjustments</b>
			<i>RMB'000</i>
			<i>(unaudited)</i>
Revenue	1,499,381	1,424,986	873,220
Profit before tax	102,373	63,190	103,552
Profit and total comprehensive income for the period	102,373	63,190	103,552

	<b>As at 31 December</b>		<b>As at</b>
	<b>2019</b>	<b>2018</b>	<b>30 June</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Total assets	5,323,510	4,833,304	5,438,599
Total liabilities	3,059,174	2,731,341	3,070,711
Net assets	2,264,336	2,101,963	2,367,888

## **POSITIVE PROFIT ALERT ANNOUNCEMENT AND PROFIT ESTIMATE**

As set out in the Positive Profit Alert Announcement, based on a preliminary review of the unaudited consolidated management accounts of the Company for the ten months ended 31 October 2020, the Company is expected to record an unaudited profit attributable to the Shareholders for the ten months ended 31 October 2020 (before biological fair value adjustments) of approximately RMB394,506,000 and an unaudited profit attributable to the Shareholders for the ten months ended 31 October 2020 (after biological fair value adjustments) of approximately RMB235,968,000 (i.e. the Profit Estimate), which represents a significant improvement compared to: (i) the audited profit attributable to the Shareholders for the year ended 31 December 2019 (before biological fair value adjustments) of RMB239,390,000; (ii) the audited profit attributable to the Shareholders for the year ended 31 December 2019 (after biological fair value adjustments) of RMB104,335,000; (iii) the unaudited profit attributable to the Shareholders for the six months ended 30 June 2020 (before biological fair value adjustments) of RMB155,376,000; and (iv) the unaudited profit attributable to the Shareholders for the six months ended 30 June 2020 (after biological fair value adjustments) of RMB104,910,000.

The Board believes the significant increase in unaudited profit attributable to the Shareholders for the ten months ended 31 October 2020 was mainly attributable to an increase in both the selling price and sales volume of raw fresh milk during the relevant period, thanks to the Group's intensified marketing efforts, as well as the increased yield per dairy cow and the growth in milking herd.

The Profit Estimate constitutes a "profit forecast" under Rule 10 of the Takeovers Code and shall be reported on by the Independent Financial Adviser and the Company's auditor in accordance with the requirements under Rule 10 of the Takeovers Code. The Profit Estimate has been reported on by Ernst & Young, the Company's auditors and Opus Capital, the Independent Financial Adviser. Ernst & Young has reported that, so far as the accounting policies and calculations are concerned, the Directors have properly compiled the Profit Estimate in accordance with the bases adopted by the Directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Opus Capital is satisfied that the Profit Estimate has been made by the Directors with due care and consideration.

Your attention is drawn to the reports issued by Opus Capital and Ernst & Young on the Profit Estimate set out in Appendix IV and Appendix V to this Composite Document respectively.

## SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date:

Shareholders	Number of Shares	Approximate% of the issued share capital
<b>Offeror<sup>(1)(2)</sup></b>	1,140,519,522	43.75%
<b>Concert party of the Offeror:</b>		
– SiYuan Investment <sup>(3)</sup>	61,460,000	2.36%
<b>Aggregate number of Shares held by the Offeror Concert Group</b>	1,201,979,522	46.11%
<b>IU Shareholders</b>		
– Pacific Eminent Limited	315,790,000	12.11%
– Agriculture Investment Company Limited	172,500,000	6.62%
– Tai Shing Company Limited	147,040,000	5.64%
– Jingm Investment Company Limited	105,260,000	4.04%
– Chingford Holdings Limited	100,000,000	3.84%
– Peak Ring Holding Limited	89,800,000	3.44%
– New Century Husbandry Limited	84,300,000	3.23%
– Beyond Dawn Limited	54,316,000	2.08%
– Tianfu Investment Company Limited	36,100,000	1.38%
– Golden Avenue Investment Limited	36,100,000	1.38%
– Fortune Hero Investment Limited	105,260,000	4.04%
– SiYuan Investment <sup>(3)</sup>	61,460,000	2.36%
– ZhongDi Brothers Investment Company Limited	42,622,000	1.64%
– Square Avis Limited	26,460,000	1.02%
<b>Aggregate number of Shares held by IU Shareholders</b>	1,377,008,000	52.83%
<b>Other Shareholders</b>	89,192,000	3.42%
<b>Total</b>	<b><u>2,606,719,522</u></b>	<b><u>100%</u></b>

*Notes:*

- As at the Latest Practicable Date, Mr. Wang Xiaogang, being the sole director of the Offeror, was not interested in any Shares.
- As at the Latest Practicable Date, Jingang Trade and YeGu Investment legally and beneficially held 1,898,841,522 and 707,878,000 ordinary shares of the Offeror, representing approximately 72.84% and 27.16% of the total issued share capital of the Offeror, respectively.

3. As at the Latest Practicable Date, Mr. Zhang Kaizhan, through his holding company (SiYuan Investment, of which, Mr. Zhang Kaizhan is the sole director), indirectly held 61,460,000 Shares.

### **INTENTION OF THE OFFEROR ON THE GROUP**

Your attention is drawn to the paragraph headed “INTENTION OF THE OFFEROR ON THE GROUP” in the letter from “Letter from CLSA Limited” in this Composite Document. The Board is aware of the intention of the Offeror in respect of the Company and is willing to continue to focus on the development of its existing businesses, namely dairy farming in China subject to a continuing review of its operations and the development of a plan to realize efficiencies and synergies with affiliated businesses of Yili Industrial, the ultimate controlling shareholder of the Offeror. The Board also understands that the Offeror has no intention to terminate the employment of any employees of the Group or to make significant changes to any employment (except for the proposed change to the members of the Board at a time no earlier than that permitted under the Listing Rules and the Takeovers Code or such later time as the Offeror considers to be appropriate) as a result of completion of the Offer.

### **PROPOSED CHANGE OF BOARD COMPOSITION**

Your attention is drawn to the section headed “Proposed Change to the Board Composition of the Company” in “Letter from CLSA Limited” in this Composite Document which sets out further details regarding the proposed change of Board composition. Any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and further announcement(s) will be made as and when appropriate.

### **POSSIBLE COMPULSORY ACQUISITION AND WITHDRAWAL OF LISTING**

The Board notes that, according to the “Letter from CLSA Limited” in this Composite Document, the Offeror intends (but is not obliged) to exercise any right it may have under section 88 of the Cayman Islands Companies Act to compulsorily acquire those Shares not acquired by the Offeror under the Offer on the condition that the Offeror, within four (4) months of the posting of this Composite Document, has received valid acceptance in respect of not less than 90% of the Offer Shares.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatize the Company by means of the Offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirement imposed by the Cayman Islands Companies Act, acceptance of the Offer and purchases made by the Offeror and its concert parties during the four months after posting of this Composite Document total 90% or more of the Disinterested Shares.

Pursuant to Rule 15.6 of the Takeovers Code, as the Offeror has stated in this Composite Document its intention to avail itself of its powers of compulsory acquisition, the Offer may not remain open for acceptance for more than four months from the date of this Composite Document, unless the Offeror has, by that time, become entitled to exercise such powers of compulsory acquisition, in which event it must do so without delay.

**If the level of acceptances of the Offer reaches the prescribed level under the Cayman Islands Companies Act required for compulsory acquisition and the requirements of Rule 2.11 of the Takeovers Code are satisfied and the Offeror exercises its compulsory acquisition right referred to above, the Company will apply to the Stock Exchange for the suspension of trading in the Shares on the Stock Exchange from the next trading day of the Stock Exchange immediately after the Closing Date up to the date of withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15(1) of the Listing Rules.**

Whilst it is the intention of the Offeror to privatise the Company, the Offeror's ability to exercise rights of compulsory acquisition in respect of the Offer Shares is dependent on the level of acceptances of the Offer reaching the prescribed level under the Cayman Islands Companies Act and on the requirements of Rule 2.11 of the Takeovers Code being satisfied. If the Offer Shares validly tendered for acceptance under the Offer are less than 90% of the Offer Shares or less than 90% of the Disinterested Shares, the Offeror will not become entitled to exercise the power of compulsory acquisition under the Cayman Islands Companies Act and the Company will remain listed on the Stock Exchange.

Pursuant to the Irrevocable Undertakings, the IU Shareholders will upon request, as soon as possible and in any event no later than 3:00 p.m. on the seventh (7th) day (i.e. 25 January 2021) after the date of despatch of this Composite Document, tender their acceptance of the Offer in respect of the IU Shares in accordance with the terms of the Offer and their obligations under the Irrevocable Undertakings, by lodging the duly completed and signed form of acceptance and transfer in respect of the IU Shares in accordance with the instructions printed thereon with the Registrar.

As at the Latest Practicable Date, the percentage of the share capital of the Company made up by all of the IU Shares and the Shares owned by the Offeror Concert Group was over 50%. Therefore, once the IU Shareholders tender their acceptance of the Offer in respect of the IU Shares under the Irrevocable Undertakings, the acceptance condition of the Offer would have been met. Accordingly, the Offer is expected to become unconditional on or prior to the seventh (7th) day after the date of this Composite Document.

As at the Latest Practicable Date: (i) the percentage of the Offer Shares made up by all of the IU Shares was approximately 93.92%, which was over 90%; and (ii) the percentage of the Disinterested Shares made up by all of the IU Shares (other than the IU Shares held by SiYuan Investment, a concert party of the Offeror) was approximately 93.65%, which was also over 90%. Therefore, once the relevant IU Shareholders tender their acceptance of the Offer in respect of the IU Shares under the Irrevocable Undertakings, the conditions of the

compulsory acquisition under section 88 of the Cayman Islands Companies Act and Rule 2.11 of the Takeovers Code would have been met. Accordingly, on completion of such compulsory acquisition, the Company will become a wholly-owned subsidiary of the Offeror and an application will be made for the withdrawal of the listing of the Shares from the Stock Exchange pursuant to Rule 6.15(1) of the Listing Rules.

#### **PUBLIC FLOAT OF THE COMPANY**

According to the Listing Rules, if, upon the close of the Offer, the Offeror does not become entitled to exercise the power of compulsory acquisition under the Cayman Islands Companies Act and less than 25% of the issued Shares are held by the public, or if the Stock Exchange believes that a false market exists or may exist in the trading of the Shares or there are insufficient Shares in public hands to maintain an orderly market, then the Stock Exchange will consider exercising its discretion to suspend dealings in the Shares until appropriate steps have been taken to restore the minimum percentage of the Shares in public hands. In such circumstances, the Offeror will take appropriate steps to restore the sufficient public float of the Shares after the close of the Offer accordingly.

#### **SPECIAL DEAL**

Save for the Special Deal as disclosed in the Circular, there is no other agreement entered into or to be entered into between the Offeror Concert Group on one hand and each of the Shareholders and parties acting in concert with them on the other hand which will constitute a special deal under Rule 25 of the Takeovers Code.

#### **GENERAL**

None of the members of the Independent Board Committee is interested in or involved in the Offer.

Your attention is drawn to (i) the letter from the Independent Board Committee as set out on pages 29 to 30 of this Composite Document, which contains its advice and recommendations to the Independent Shareholders in respect of the Offer; and (ii) the letter from the Independent Financial Adviser set out on pages 31 to 67 of this Composite Document, which contains its advice to the Independent Board Committee, the Independent Shareholders in relation to the Offer and the principal factors considered by it before arriving at its recommendations.



## **PROPERTY VALUATION REPORT**

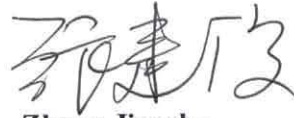
Your attention is drawn to the property valuation report as set out in Appendix III to this Composite Document, which contains, among other things, the value of properties in which the Group is interested. In particular, for the property interests held for future development by the Group in the PRC as set out on pages III-15 to III-18, as at 31 October 2020, the Group had not obtained the necessary consents or approvals for the development of the land parcel and the land had no immediate development potential. In addition, the Group had no specific development plan in respect of such land parcel in the immediate future.

## **ADDITIONAL INFORMATION**

Your attention is drawn to the additional information contained in the appendices to this Composite Document. You are recommended to read carefully Appendix I to this Composite Document and the accompanying Form of Acceptance for further details in respect of the procedures for acceptance of the Offer.

In considering what action to take in connection with the Offer, you should consider your own tax positions, if any, and, in case of any doubt, consult your professional advisers.

Yours faithfully,  
By Order of the Board  
**China ZhongDi Dairy Holdings Company Limited**

A handwritten signature in black ink, consisting of stylized Chinese characters that read '张 Jian She'.

**Zhang Jianshe**  
*Chairman*