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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)

SUBSCRIPTION FOR NEW SHARES UNDER GENERAL MANDATE AND POSSIBLE CHANGE OF CONTROLLING SHAREHOLDERS

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

SUBSCRIPTION OF NEW SHARES UNDER GENERAL MANDATE

On 31 July 2020 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, 432,641,522 Subscription Shares at a Subscription Price of HK\$0.47 per Subscription Share. The total consideration payable by the Subscriber under the Subscription Agreement is HK\$203,341,515.34.

The Subscription Shares represent (i) approximately 19.9% of the existing issued share capital of the Company as at the date of this announcement; and (ii) approximately 16.6% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming there is no change in the total number of issued shares for the period from the date of this announcement up to the Completion Date save for the issuance of the Subscription Shares). The Subscription Shares will be issued pursuant to the General Mandate.

POSSIBLE CHANGE OF CONTROLLING SHAREHOLDERS

As disclosed in the section headed “Effects on the Shareholding Structure of the Company” of this announcement, as at the date of this announcement, Mr. Zhang Jianshe and Mr. Zhang Kaizhan are the controlling shareholders (as defined under the Listing Rules) of the Company and parties acting in concert under the Concert Parties Arrangement. They jointly held 769,338,000 Shares through their respective holding companies, representing approximately 35.39% of the issued share capital of the Company as at the date of this announcement.

Immediately after Completion, the shareholding percentage of Mr. Zhang Jianshe and Mr. Zhang Kaizhan in the Company will decrease to approximately 29.51% of the then issued share capital of the Company. Therefore, Mr. Zhang Jianshe and Mr. Zhang Kaizhan will cease to be the controlling shareholders of the Company but remain as the substantial shareholders (as defined under the Listing Rules) of the Company; and (ii) the Subscriber will become a substantial shareholder of the Company.

Shareholders and potential investors should note that the Completion is subject to the fulfillment of the conditions to the Subscription Agreement. As the Subscription may or may not proceed to the Completion, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

SUBSCRIPTION OF NEW SHARES UNDER GENERAL MANDATE

On 31 July 2020 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, 432,641,522 Subscription Shares at the Subscription Price of HK\$0.47 per Subscription Share. The principal terms of the Subscription Agreement are as follows:

Subscription Agreement

Date : 31 July 2020 (after trading hours)

Parties : (1) the Company, as the issuer; and
(2) the Subscriber.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Subscriber and its ultimate beneficial owner(s) are independent of and have no connection with the Company and its connected persons and associates (as defined in the Listing Rules), and do not hold any Shares in the Company as at the date of this announcement.

Subscription Shares

Pursuant to the Subscription Agreement, the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue, 432,641,522 Subscription Shares at a Subscription Price of HK\$0.47 per Subscription Share. The total consideration payable by the Subscriber under the Subscription Agreement shall be HK\$203,341,515.34.

The Subscription Shares represent (i) approximately 19.9% of the existing issued share capital of the Company as at the date of this announcement; and (ii) approximately 16.6% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming there is no change in the total number of issued Shares for the period from the date of this announcement up to the Completion Date save for the issuance of the Subscription Shares).

The Subscription Shares, once issued and fully paid, will rank *pari passu* in all respects with all other unpledged Shares in issue, and are entitled to all dividends or other distributions declared, made or paid on and after the Completion Date.

Subscription Price

The Subscription Price of HK\$0.47 per Subscription Share represents:

- (1) a discount of approximately 18.97% to the closing price of HK\$0.58 per Share as quoted on the Stock Exchange on the Last Trading Day; and
- (2) a discount of approximately 17.83% to the average closing price of HK\$0.572 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately preceding the Last Trading Day.

The Subscription Price was arrived after arm's length negotiation between the Company and the Subscriber with reference to the recent trading prices and performance of the Shares, the current market conditions and the business prospects of the Group. The Directors are of the view that the Subscription Price is fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

After deducting the expenses of the Subscription in the amount of approximately HK\$1,500,000, the net price per Subscription Share will be approximately HK\$0.467.

The aggregate consideration for the Subscription of HK\$203,341,515.34 shall be payable by the Subscriber into the bank account designated by the Company in readily available funds in an amount equal to the consideration for the Subscription not later than 11:00 a.m. (Hong Kong time) on the Completion Date upon fulfillment of the conditions precedent to the Subscription Agreement. If the Company fails to perform its relevant obligations on the Completion Date (as set out in the section headed "Completion" of this announcement), the Subscription Agreement shall be terminated immediately and the Company shall return the consideration for the Subscription in full to the Subscriber within 15 business days after the Subscription Agreement is terminated. If the Company fails to return the subscription consideration in full to the Subscriber within 15 business days after the Subscription Agreement is terminated, the Company shall pay 2% of penalty per day during the period of delay.

Conditions Precedent

The Completion of the Subscription is conditional upon the fulfillment or waiver of the following conditions (as the case may be):

- (1) The Subscriber has completed business, legal and financial due diligence on the Company to its satisfaction and notifies the Company that its due diligence has been completed; and
- (2) The Listing Committee of the Stock Exchange approves the listing and trading of the Subscription Shares, and the listing and approval have not been revoked prior to the issuance of Subscription Shares by the Company to the Subscriber pursuant to the terms of the Subscription Agreement, and a copy of the listing approval by the Stock Exchange shall be delivered to the Subscriber.

The Company shall procure the fulfillment of the above conditions precedent of the Subscription Agreement as soon as practicable, including applying to the Stock Exchange for the approval of the listing and trading of Subscription Shares as soon as practicable, and shall notify the Subscriber immediately after obtaining the approval. The Company shall provide such information and documents as the Subscriber may request in connection with the performance of the terms.

If the above conditions cannot be fulfilled or waived (as the case may be) before 31 August 2020 (or such other date as may be agreed between the Company and the Subscriber), the parties are not required to proceed the Subscription and the Subscription Agreement shall cease to be of any effect, except for responsibilities and obligations arising theretofore.

Completion

The Completion will take place on the same day when the conditions precedent are fulfilled. Subject to the completion of the following actions (as further described in the next paragraph) by the Company, the Subscriber shall pay the consideration for the Subscription to the Company pursuant to the terms of the Subscription Agreement not later than 11:00 a.m. (Hong Kong time) on the Completion Date.

Upon Completion and not later than 3:00 p.m. (Hong Kong time) on the Completion Date, the Company shall:

- (a) send the following documents to the Subscriber: copies of the minutes or resolutions of the Board authorizing the issuance and allotment of Subscription Shares; and
- (b) issue Subscription Shares to the Subscriber and credit the same as fully paid, and procure the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, to add the Subscriber to the register of members of the Company as the registered holder of Subscription Shares and issue share certificates of Subscription Shares with the Subscriber as the registered holder.

GENERAL MANDATE IN RELATION TO THE SUBSCRIPTION SHARES

Upon the Completion, 432,641,522 new Shares will be allotted and issued under the General Mandate. The General Mandate entitles the Directors to allot, issue and deal with up to 434,815,600 Shares, representing approximately 20% of the issued share capital of the Company at the time of approval of the General Mandate at the annual general meeting held on 27 May 2020.

As of the date of this announcement, the Company has not issued any part of such Shares under the General Mandate. Accordingly, the Subscription is not subject to approval by the Shareholders.

APPLICATION FOR LISTING OF THE SUBSCRIPTION SHARES

The Company will apply to the Stock Exchange for approval of the listing and trading of the Subscription Shares.

INFORMATION OF THE SUBSCRIBER

The Subscriber is Hongkong Jingang Trade Holding Co., Limited, primarily engaged in investment and trading businesses. It is wholly-owned by Inner Mongolia Yili Industrial Group Co., Ltd. (“**Yili Industrial**”). Yili Industrial is a company incorporated in the PRC with limited liability, the share of which are listed on the Shanghai Stock Exchange of the PRC (stock code: 600887).

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND USE OF PROCEEDS

The Company is a modern agricultural and animal husbandry enterprise mainly engaged in dairy farming in China. The Group's business models cover multiple stages of the dairy farming industry value chains, including raising dairy cows, breeding dairy cows, premium raw milk production and sale, importing and selling dairy cows of quality breeds and breeding stock, as well as import trading business in alfalfa hay and other animal husbandry-related products.

Yili Industrial is the largest dairy company with the most complete product categories in China mainly engaged in the processing, manufacturing and sales of various dairy products and health drinks, offering several major product series including liquid milk, milk beverages, milk powder, yogurt, frozen drinks, cheese, milk fat, and packaged drinking water.

Directors are of the view that the investment of the Subscriber can improve the Company's debt-to-asset ratio, supplement its working capital, reduce financial risks and also optimize the Company's capital structure and expand the Company's shareholder base. More importantly, it enables the Company to strengthen coordination and cooperation with downstream companies in the industrial chain to build up momentum for future development, which is in the interests of the Company and all Shareholders as a whole. Directors are of the view that the terms of the Subscription Agreement are entered into on normal commercial terms and are fair and reasonable.

It is estimated that the proceeds from the Subscription (after deducting expenses arising from the Subscription) will be approximately HK\$201,841,515.34. The Company intends to use approximately 70% of the net proceeds from the Subscription to supplement the general working capital, mainly for the purchase of production materials such as feeds and veterinary drugs necessary for farm operations, and approximately 30% for repayment of bank loans that are falling due to support the operation of the Company's existing business.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company had not conducted any equity fund raising activities in the past twelve (12) months immediately preceding the date of this announcement.

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company as at the date of this announcement and immediately after the Completion (assuming there is no change in the total number of issued Shares from the date of this announcement to the Completion Date save for the issuance of the Subscription Shares) is as follows:

Shareholder name	As at the date of this announcement		Immediately after the Completion	
	Number of Shares	Approximate %	Number of Shares	Approximate %
Mr. Zhang Jianshe ⁽¹⁾	769,338,000	35.39%	769,338,000	29.51%
Mr. Zhang Kaizhan ⁽¹⁾	769,338,000	35.39%	769,338,000	29.51%
YeGu Investment Company Limited ⁽¹⁾	769,338,000	35.39%	769,338,000	29.51%
Green Farmlands Group ⁽¹⁾	769,338,000	35.39%	769,338,000	29.51%
SiYuan Investment Company Limited ⁽¹⁾	769,338,000	35.39%	769,338,000	29.51%
Ms. Li Jingtao ⁽²⁾	769,338,000	35.39%	769,338,000	29.51%
Ms. Zhang Fanghong ⁽³⁾	769,338,000	35.39%	769,338,000	29.51%
Subscriber	–	–	432,641,522	16.60%
Other Shareholders	1,404,740,000	64.61%	1,404,740,000	53.89%
Total	<u>2,174,078,000</u>	<u>100%</u>	<u>2,606,719,522</u>	<u>100%</u>

Notes:

- (1) As at the date of this announcement, Mr. Zhang Jianshe was the sole shareholder of YeGu Investment which directly held 392,088,000 Shares and indirectly held, through its shareholding in Green Farmlands Group, 315,790,000 Shares. Accordingly, under the Securities and Futures Ordinance, Mr. Zhang Jianshe was deemed to be interested in the 707,878,000 Shares held directly and indirectly by YeGu Investment Company Limited. In addition, as at the date of this announcement, Mr. Zhang Kaizhan, through his holding company (SiYuan Investment Company Limited), indirectly held 61,460,000 Shares.

Mr. Zhang Jianshe and Mr. Zhang Kaizhan are the controlling shareholders (as defined in the Listing Rules) of the Company and parties acting in concert under the Concert Parties Arrangement. Therefore, as at the date of this announcement, Mr. Zhang Jianshe and Mr. Zhang Kaizhan jointly held 769,338,000 Shares through their respective holding companies, representing approximately 35.39% of the issued share capital of the Company as at the date of this announcement. Under the Securities and Futures Ordinance, because of the Concert Parties Arrangement, Mr. Zhang Jianshe and Mr. Zhang Kaizhan were each deemed to be interested in 35.39% of the issued share capital of the Company as at the date of this announcement.

- (2) Ms. Li Jingtao is the spouse of Mr. Zhang Jianshe and is therefore deemed to be interested in the Shares in which Mr. Zhang Jianshe is interested under the Securities and Futures Ordinance.
- (3) Ms. Zhang Fanghong is the spouse of Mr. Zhang Kaizhan and is therefore deemed to be interested in the Shares in which Mr. Zhang Kaizhan is interested under the Securities and Futures Ordinance.

POSSIBLE CHANGE OF CONTROLLING SHAREHOLDERS

As disclosed in the section headed “Effects on the Shareholding Structure of the Company” of this announcement, as at the date of this announcement, Mr. Zhang Jianshe and Mr. Zhang Kaizhan are the controlling shareholders (as defined under the Listing Rules) of the Company and parties acting in concert under the Concert Parties Arrangement. They jointly held 769,338,000 Shares through their respective holding companies, representing approximately 35.39% of the issued share capital of the Company as at the date of this announcement.

Immediately after Completion, the shareholding percentage of Mr. Zhang Jianshe and Mr. Zhang Kaizhan in the Company will decrease to approximately 29.51% of the then issued share capital of the Company. Therefore, (i) Mr. Zhang Jianshe and Mr. Zhang Kaizhan will cease to be the controlling shareholders of the Company but remain as the substantial shareholders (as defined under the Listing Rules) of the Company; and (ii) the Subscriber will become a substantial shareholder of the Company.

GENERAL

Shareholders and potential investors should note that the Completion is subject to the fulfillment of the conditions to the Subscription Agreement. As the Subscription may or may not proceed to the Completion, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day on which banks in Hong Kong are open for business (excluding Saturdays and days on which a tropical cyclone warning signal number 8 or above is hoisted or a “black rainstorm” warning signal is issued in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.)
“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
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Concert Parties Arrangement”	a concert parties arrangement between the controlling Shareholders of the Company, as recorded and supplemented by the letter of confirmation and undertakings dated 15 April 2015 and further changed on 15 July 2020 (details of such changes were set out in the announcement of the Company dated 22 July 2020), pursuant to which Mr. Zhang Jianshe and Mr. Zhang Kaizhan are controlling Shareholders of the Company and parties acting in concert under the Concert Parties Arrangement
“Completion”	the completion of the subscription for Subscription Shares
“Completion Date”	the same date on which the conditions precedent under the Subscription Agreement are fulfilled
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“General Mandate”	the general mandate granted to Directors by way of an ordinary resolution at the annual general meeting of the Company held on 27 May 2020 to issue, allot and deal with additional Shares of the Company not exceeding 20% of the total number of issued Shares of the Company as at the date of passing of the resolution
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Last Trading Day”	31 July 2020, being the last trading day immediately prior to entering into the Subscription Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	share(s) with par value of US\$0.00001 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Hongkong Jingang Trade Holding Co., Limited
“Subscription”	the subscription of Subscription Shares by the Subscriber pursuant to the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 31 July 2020 entered into by and between the Company as issuer and the Subscriber for the subscription of 432,641,522 Subscription Shares at the Subscription Price
“Subscription Price”	subscription price of HK\$0.47 per Subscription Share
“Subscription Share(s)”	432,641,522 new Shares to be allotted and issued upon Completion pursuant to the Subscription Agreement
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Yili Industrial”	Inner Mongolia Yili Industrial Group Co., Ltd., a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange (stock code: 600887)
“%”	per cent

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

Hong Kong, 31 July 2020

As at the date of this announcement, the Board comprises Mr. Zhang Jianshe and Mr. Zhang Kaizhan as executive directors; Mr. Liu Dai, Mr. Du Yuchen, Mr. Li Jian and Ms. Yu Tianhua as non-executive directors; and Prof. Li Shengli, Dr. Zhang Shengli and Mr. Zhang Juying Jerry as independent non-executive directors.