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CHINA MENGNIU DAIRY COMPANY LIMITED

中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

**DISCLOSEABLE TRANSACTION
ACQUISITION OF EQUITY INTEREST IN
SHANGHAI MILKGROUND FOOD TECH COMPANY LIMITED**

ACQUISITION OF EQUITY INTEREST IN SHANGHAI MILKGROUND

The Board is pleased to announce that on 13 December 2020, Inner Mongolia, a subsidiary of the Company, and Shanghai Milkground entered into the Share Subscription Agreement, pursuant to which Shanghai Milkground has conditionally agreed to issue and Inner Mongolia has conditionally agreed to subscribe no more than 100,976,102 Target Shares at a price of RMB29.71 (equivalent to approximately HK\$35.21) per Target Share.

On the same date, Inner Mongolia and Ms. Chai, the existing controlling shareholder of Shanghai Milkground entered into the Cooperation Agreement, pursuant to which Ms. Chai has agreed to, and to procure her controlled entities to, during a certain period of time, abstain from exercising all or parts of their voting rights over such number of Target Shares.

As of the date of this announcement, Inner Mongolia is holding approximately 5% in Shanghai Milkground, which Inner Mongolia acquired in March 2020. Assuming 100,976,102 Target Shares will be issued pursuant to the Share Subscription Agreement, Inner Mongolia will be holding approximately 23.80% in Shanghai Milkground on a fully diluted basis. Upon Completion, Inner Mongolia will become the controlling shareholder (as defined under the relevant rules of CSRC) of Shanghai Milkground.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the transaction(s) contemplated under the Share Subscription Agreement and the Cooperation Agreement, on an aggregated basis with the consideration for the Previous Acquisition, exceed 5% but are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

THE ACQUISITION

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On the same date, Inner Mongolia and Ms. Chai, the existing controlling shareholder of Shanghai Milkground entered into the Cooperation Agreement, pursuant to which Ms. Chai has agreed to, and to procure her controlled entities to, during a certain period of time, abstain from exercising all or parts of their voting rights over such number of Target Shares.

As of the date of this announcement, Inner Mongolia is holding approximately 5% in Shanghai Milkground, which Inner Mongolia acquired in March 2020 (the “Previous Acquisition”). Assuming 100,976,102 Target Shares will be issued pursuant to the Share Subscription Agreement, Inner Mongolia will be holding approximately 23.80% in Shanghai Milkground on a fully diluted basis. Upon Completion, Inner Mongolia will become the controlling shareholder (as defined under the relevant rules of CSRC) of Shanghai Milkground.

THE SHARE SUBSCRIPTION AGREEMENT

Key terms of the Share Subscription Agreement are summarized below.

Date	13 December 2020
Parties	(1) Inner Mongolia (2) Shanghai Milkground

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, Shanghai Milkground and its ultimate beneficial owner are third parties independent of the Group and its connected persons.

Assets to be acquired

The assets to be acquired by Inner Mongolia pursuant to the Share Subscription Agreement are such number of new Target Shares to be issued by Shanghai Milkground, being not more than 100,976,102 Target Shares, at a price of RMB29.71 (equivalent to approximately HK\$35.21) per Target Share.

As of the date of this announcement, Inner Mongolia is holding approximately 5% in Shanghai Milkground, which Inner Mongolia acquired in March 2020. Assuming 100,976,102 Target Shares will be issued pursuant to the Share Subscription Agreement, Inner Mongolia will be holding approximately 23.80% in Shanghai Milkground on a fully diluted basis. Upon Completion, Inner Mongolia will become the controlling shareholder (as defined under the relevant rules of CSRC) of Shanghai Milkground.

Please refer to the section headed “Information on Shanghai Milkground” of this announcement for more information on Shanghai Milkground.

Consideration

Assuming 100,976,102 Target Shares will be issued pursuant to the Share Subscription Agreement, the total Share Consideration will be approximately RMB3 billion (equivalent to approximately HK\$3.555 billion), which will be paid in cash to Shanghai Milkground at Completion.

As of the date of this announcement, the Group intends that the Consideration will be funded by internal resources of the Group and bank financing.

Basis for determination of the Share Consideration

The Consideration has been determined in accordance with relevant regulations including Administrative Measures for the Issuance of Securities by Listed Companies issued by the CSRC, after arm's length negotiations between Inner Mongolia and Shanghai Milkground with reference to, among others, the current operating conditions in the PRC cheese market, comparable listed company analysis, comparable market transactions, Shanghai Milkground's market value and the Company's assessment of the value of Shanghai Milkground to the Group, including the reasons for and benefits of the Acquisition as set out below.

Conditions

Completion of the Share Subscription is subject to fulfilment of the following key Conditions:-

1. Approval by or no objection from SAMR for the proposed transaction having been obtained;
2. Approval by the CSRC for the proposed transaction having been obtained.

Completion

Completion of the Acquisition is subject to the fulfilment of the Conditions on or before the date that is 12 months after the date of the Share Subscription Agreement, or any other date otherwise agreed in writing by Inner Mongolia and Shanghai Milkground.

THE COOPERATION AGREEMENT

Key terms of the Cooperation Agreement are summarized below.

Date 13 December 2020

Parties (1) Inner Mongolia
(2) Ms. Chai

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Ms. Chai is a third party independent of the Group and its connected persons.

Abstaining from exercising of voting rights

Pursuant to the Cooperation Agreement, Ms. Chai has agreed to Inner Mongolia to, and to procure her relevant controlled entities to, during a certain period of time, abstain from exercising all or parts of their voting rights over such number of Target Shares (“Ms. Chai’s voting undertaking”).

In consideration of Ms. Chai’s voting undertaking, Inner Mongolia has agreed to (A) grant Ms. Chai (or a person designated by Ms. Chai) the right to be paid the difference between (i) RMB39 (equivalent to approximately HK\$46.22) (the “Benchmark Price”) and (ii) the average market price of the previous 60 trading days at the time of Ms. Chai (or a person designated by Ms. Chai) issuing a notice to exercise such right (if higher than the Benchmark Price), in respect of certain number of Target Shares (“Relevant Shares”) which Ms. Chai and her controlled entities beneficially own and abstain from voting on (“Share Price Compensation”); (B) grant a loan as requested by Ms. Chai in the amount representing the difference between (i) Benchmark Price and (ii) the average market price of the previous 60 trading days at the time of Ms. Chai requesting for such a loan (if higher than the Benchmark Price), in respect of the Relevant Shares (“Loan”), provided that any outstanding amount under the Loan shall be utilized to set off an equivalent amount of Share Price Compensation.

Parties to the Cooperation Agreement agree that the total amount of the Share Consideration, the Share Price Compensation and the Loan, on an aggregated basis with the consideration for the Previous Acquisition, shall not exceed such an amount which would otherwise cause the transaction contemplated under the Share Subscription Agreement and the Cooperation Agreement to constitute a major transaction or above of the Company pursuant to the Listing Rules.

The Cooperation Agreement is conditional upon completion of the Share Subscription Agreement having taken place.

REASONS FOR AND BENEFITS OF THE ACQUISITION

Shanghai Milkground’s cheese business have seen rapid expansion in recent years. With its substantial cheese production capabilities and technique, it has become a leading enterprise in the cheese industry in the PRC. This investment is in line with the Company’s development strategies. The Company is optimistic about the future prospects of the cheese market and recognizes Shanghai Milkground’s long term development potential.

Having considered the above, the Board concluded that the terms of the Share Subscription Agreement and the Cooperation Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and its shareholders as a whole.

INFORMATION ON SHANGHAI MILKGROUND

Shanghai Milkground is a joint stock company incorporated in PRC and has its A-shares listed on the Shanghai Stock Exchange (Stock Code: 600882). It is principally engaged in manufacturing and distribution of dairy products, including production of cheese, liquid milk, butter, cream, condensed milk, cheese slides. It has 5 manufacturing facilities across PRC, and is a leading PRC cheese brand. As of the date of this announcement, Ms. Chai holds approximately 19.88% interest in Shanghai Milkground and Inner Mongolia holds approximately 5% interest in Shanghai Milkground.

Set out below is the audited consolidated net profits of Shanghai Milkground for the two years ended 31 December 2018 and 31 December 2019 prepared in accordance with accounting principles generally accepted in the PRC.

	For the year ended 31 December 2018 (audited) <i>RMB'000</i>	For the year ended 31 December 2019 (audited) <i>RMB'000</i>
Profit/(loss) before taxation	(1,522)	22,539
Profit after taxation	10,641	19,230

As at 30 September 2020, the unaudited consolidated total assets and net assets of Shanghai Milkground were RMB 3,035,041,000 (equivalent to approximately HK\$3,596,524,000) and RMB 1,817,274,000 (equivalent to approximately HK\$2,153,470,000).

INFORMATION ON INNER MONGOLIA AND THE GROUP

Inner Mongolia is an indirect non-wholly owned subsidiary of the Company and is a joint stock company incorporated in the PRC.

The Group is one of the leading dairy product manufacturers in China and is principally engaged in the manufacturing and distribution of quality dairy products including liquid milk, ice-cream and other dairy products.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the transaction(s) contemplated under the Share Subscription Agreement and the Cooperation Agreement, on an aggregated basis with the consideration for the Previous Acquisition, exceed 5% but are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

“Board”	the board of directors of the Company
“Company”	China Mengniu Dairy Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 2319)
“Completion”	completion of the subscription of the Target Shares pursuant to the terms and conditions of the Share Subscription Agreement
“Conditions”	the conditions precedent to Completion

“Cooperation Agreement”	the Cooperation Agreement dated 13 December 2020 and entered into between Inner Mongolia and Ms. Chai
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries, and “Group Company” shall be constructed accordingly
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Inner Mongolia”	Inner Mongolia Mengniu Dairy (Group) Co., Ltd, an indirect non-wholly owned subsidiary of the Company and a joint stock company incorporated in PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Ms. Chai”	Chai Xiu, the controlling shareholder of Shanghai Milkground as of the date of this announcement
“PRC or China”	the People’s Republic of China, which for the purpose of this announcement, shall not include Hong Kong Special Administrative Region of the PRC, Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SAMR”	State Administration for Market Regulation of PRC
“Shanghai Milkground”	Shanghai Milkground Food Tech Company Limited, a joint stock company incorporated in PRC and has its A-shares listed on the Shanghai Stock Exchange (Stock Code: 600882).
“Share Consideration”	the total amount payable by Inner Mongolia to Shanghai Milkground upon Completion for the subscription of no more than 100,976,102 Target Shares at a price of RMB29.71 (equivalent to approximately HK\$35.21) per Target Share, which is approximately RMB3 billion (equivalent to approximately HK\$3.555 billion)
“Share Subscription”	the subscription of the Target Shares pursuant to the Share Subscription Agreement
“Share Subscription Agreement”	the Share Subscription Agreement dated 13 December 2020 and entered into between Inner Mongolia and Shanghai Milkground in relation to the Acquisition

“Target Shares” the issued shares in the capital of Shanghai Milkground
“%” per cent

In this announcement, for the purpose of illustration only, RMB amounts have been translated into HK\$ at the following rate RMB1:HK\$1.185. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate or at all.

By order of the Board
China Mengniu Dairy Company Limited
中國蒙牛乳業有限公司*
Jeffrey, Minfang Lu
Chief Executive Officer and Executive Director

Hong Kong, 15 December 2020

As at the date of this announcement, the Board comprises: Mr. Jeffrey, Minfang Lu and Mr. Meng Fanjie as executive directors; Mr. Chen Lang, Mr. Niu Gensheng, Mr. Tim Ørting Jørgensen and Mr. Pascal De Petrini as non-executive directors; and Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Zhang Xiaoya and Mr. Yau Ka Chi as independent non-executive directors.

** For identification purposes only*