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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)

**SUBSCRIPTION OF NEW SHARES,
SALE AND PURCHASE OF EXISTING SHARES
AND
RESUMPTION OF TRADING**

The Board is pleased to announce that on 5 July 2009, the Company entered into the Share Subscription Agreement with COFCO and HOPU in relation to the Share Subscription. Further, the Company was notified that, on the same day, each of (i) Jinniu and Yinniu; and (ii) Laoniu entered into separate share purchase agreements with COFCO and HOPU in relation to the Share Sale.

Trading in the securities of the Company has been suspended on the Stock Exchange from 9:30 a.m. on 6 July 2009 pending the release of this announcement. A request has been made by the Company for the resumption of trading on the Stock Exchange with effect from 9:30 a.m. on 7 July 2009.

As the Share Subscription and the Share Sale are subject to the fulfillment of a number of conditions and may or may not proceed to completion, shareholders of the Company and prospective investors are advised to exercise caution when dealing in the securities of the Company.

The Board is pleased to announce that on 5 July 2009, the Company entered into the Share Subscription Agreement with COFCO and HOPU in relation to the Share Subscription. COFCO and HOPU will establish the SPV in which COFCO will own, directly or indirectly, a 70% stake and HOPU will own, directly or indirectly, the remaining 30% for the purpose of holding the interests in the Company.

Subscription Agreement

Key terms of the Subscription Agreement are as follows:

Date

5 July 2009

Parties

The Company, COFCO and HOPU

Number of Subscription Shares

173,800,000 new Shares to be issued by the Company, representing approximately 11.13% of the Company's existing issued share capital and 10.01% of the enlarged issued share capital of the Company upon completion of the Share Subscription.

The Subscription Shares will be issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 10 June 2009. Under such general mandate, the Company is allowed to allot and issue up to 312,335,028 Shares. As at the date of this announcement, no Share has been allotted and issued pursuant to such general mandate. The Company will apply to the Stock Exchange for the granting of the listing of, and permission to deal in, the Subscription Shares.

The Company has not raised funds by way of any issue of equity securities in the 12 months immediately preceding the date of the Subscription Agreement.

Subscription Price and Use of Proceeds

COFCO and HOPU will, through the SPV, subscribe for the Subscription Shares in cash at HK\$17.60 per Share.

The Subscription Price of HK\$17.60 represents:

- (i) a discount of approximately 7.85% to the closing price of HK\$19.10 per Share as quoted on the Stock Exchange on 3 July 2009, the last trading day before the date of the Subscription Agreement;
- (ii) a discount of approximately 4.56% to the average closing price of HK\$18.44 per Share as quoted on the Stock Exchange from 26 June 2009 to 3 July 2009, both dates inclusive, being the last five trading days immediately prior to the date of the Subscription Agreement; and
- (iii) a discount of approximately 2.55% to the average closing price of HK\$18.06 per Share as quoted on the Stock Exchange from 19 June 2009 to 3 July 2009, both dates inclusive, being the last ten trading days immediately prior to the date of the Subscription Agreement.

The Subscription Price was determined with reference to the prevailing market price of the Shares and was negotiated on an arm's length basis between the Company, COFCO and HOPU.

After deduction of all related expenses, the net Subscription Price is approximately HK\$ 17.59 per Share. The net proceeds receivable by the Company under the Share Subscription will be approximately HK\$ 3.058 billion. It is the Company's intention to use the proceeds from the Share Subscription to expand its existing operation, or to invest in or opportunities which may arise as a result of the upstream milk source consolidation and development in dairy product industry.

Conditions Precedent

Completion of the Share Subscription shall occur on the 15th business day (or at such other day as the parties to the Subscription Agreement may otherwise agree) following the satisfaction or waiver of the following conditions:

- (i) the receipt by the Company of the approval from the listing committee of the Stock Exchange granting the listing of and permission to deal in the Subscription Shares;
- (ii) no material change in the financial condition or business or prospects of the Mengniu Group (which materially and adversely affects the Company) having occurred; and
- (iii) no breach of any warranty as set out in the Subscription Agreement which is material in the context of the Share Subscription or which is material to the Mengniu Group as a whole.

If any of the conditions has not been fulfilled or waived by 5 August 2009, the Subscription Agreement will automatically terminate.

Board representation

Upon completion of the Share Subscription, subject to all applicable laws and the provisions in the constitutional documents of the Company regarding the maximum number of directors, the SPV will have a right to nominate 2 non-executive directors for every 10% issued share capital in the Company held by the SPV up to a maximum number of 4 persons as non-executive directors of the Company, provided that the SPV shall be entitled to nominate not less than 3 persons as non-executive directors if its interest in the total issued share capital of the Company exceeds 10% and it is the single largest shareholder of the Company at any given point in time. The number of directors on the Board who are nominated by the SPV will be adjusted proportionally in the event that the total number of directors of the Company is increased or decreased from time to time. Further, the Company has agreed to convene a general meeting as soon as possible after completion to increase the maximum number of directors to at least eleven.

Non-competition

The Company will undertake that for so long as COFCO, its Affiliates and the SPV, together hold, directly or indirectly, 10% or more of the issued share capital of the Company, it shall not, and shall procure that none of its Affiliates shall, without the prior consent of COFCO, issue any Shares or securities convertible into or exercisable or exchangeable for Shares to any entity which is, or whose Affiliates are, competing against COFCO or its Affiliates in the dairy sector or food and beverage sector in the PRC, other than (i) any offering of Shares which is made generally available to all shareholders of the Company; and (ii) any issue following the exercise of the exchange or conversion rights attached to any exchangeable or convertible securities not issued in contravention of this undertaking.

COFCO undertakes that for so long as COFCO, its Affiliates and the SPV shall together hold, directly or indirectly, 10% or more of the total issued Shares, COFCO shall not, and shall procure that none of its Affiliates shall, without the prior written consent of the Company, acquire any ownership interest in any entity which is, or whose Affiliates are, competing against the Company or its Affiliates in the dairy sector in the PRC (a **Competing Company**) provided that this restriction shall not apply to (i) any entity whose (or whose Affiliates') business is predominantly located outside the PRC; and (ii) the acquisition by COFCO or any of its Affiliates of any shares in any Competing Company whose shares are listed on a stock exchange and where COFCO or any of its Affiliates would hold, in aggregate, less than a 5% shareholding in such company.

HOPU undertakes that for so long as (i) during the Lock Up Period, HOPU and its Affiliates shall together hold, directly or indirectly, any issued Shares (on a see-through basis); (ii) at any time after the expiry of the Lock Up Period, HOPU and its Affiliates shall together hold, directly or indirectly, 3 % or more of the total issued Shares (on a see-through basis); or (iii) at any time, the directors of the Company nominated by the SPV pursuant to the Subscription Agreement include a representative of HOPU, HOPU shall not, and HOPU shall procure that none of its Affiliates shall, without the prior written consent of the Company, acquire any ownership interest in a Competing Company provided that this restriction shall not apply to (i) any entity whose (or whose Affiliates') business is predominantly located outside the PRC; and (ii) the acquisition by HOPU or any of its Affiliates of any shares in any Competing Company whose shares are listed on a stock exchange and where HOPU and its Affiliates would hold, in aggregate, less than a 5% shareholding in such company where such shareholding comprises solely freely tradable shares.

To the extent COFCO has an investment opportunity in the dairy sector inside or outside the PRC, COFCO agrees for so long as COFCO, its Affiliates and the SPV shall together, hold, directly or indirectly, 10% or more of the total issued Shares in the Company, it shall first

present such opportunity to the Company with the view that the Company may participate in such an investment opportunity on terms to be agreed in good faith between COFCO and the Company. If such opportunity is not taken up by the Company or if COFCO and the Company are unable to agree upon the terms for the investment within 30 days of the presentation of opportunity following good faith discussion, subject always to the aforementioned non-competition undertaking restricting COFCO's and its Affiliates' investment in any Competing Company, COFCO or its Affiliates shall be entitled to take up the investment opportunity without the Company.

Anti-dilution

Subject to the requirements of the Listing Rules, the SPV shall have anti-dilution rights (such anti-dilution right shall lapse if the SPV holds, directly or indirectly, less than 10% of the total issued Shares of the Company for 90 consecutive days).

In the circumstance where SPV holds 29.99% or more of the total issued share capital of the Company, the SPV will only have a limited anti-dilution right to purchase up to such number of Shares or any security convertible into or exchangeable into Shares or any warrants or other rights to subscribe for any Shares as shall represent 29.99% of the total issued share capital of the Company after the new issuance.

Lock up undertaking

The Subscription Shares and all other Shares held by the SPV as at completion of the Share Subscription (including the Jinniu Yinniu Sale Shares and the Laoniu Sale Shares) (the **Company Lock up Shares**) and all the shares in the SPV held by COFCO and HOPU or their respective Affiliates (the **SPV Lock up Shares**) are subject to lock-up for the Lock Up Period during which the SPV, COFCO and HOPU will be prohibited from selling, charging, granting of any option, right or warrant over or otherwise disposing of the Company Lock up Shares or the SPV Lock up Shares to any third party, as the case may be. Further, COFCO will undertake to hold not less than 70% of the share capital of the SPV (and voting rights attached thereto) throughout the Lock up Period. Each of COFCO and HOPU shall not and will also undertake to procure that the SPV shall not, knowingly (after having made due and careful enquiries), without the prior written consent of the Company, sell, transfer or otherwise dispose of the SPV Lock up Shares or the Company Lock up Shares, as the case may be, to any Competing Company after the expiry of the Lock up Period.

Reasons for the Share Subscription

The Board believes that the Share Subscription represents an opportunity to further strengthen the position of the Company as a leading manufacturer of dairy products in the PRC.

With COFCO as a substantial shareholder in the Company, the Company will stand to benefit from COFCO's long history of experience and recognition in China's agro-products and food sectors. COFCO's commitment to the promotion of nutritious and healthy "green food" coincides with the Company's philosophy to strive for being an environmental friendly manufacturer and hence, the strategic partnership between the two would elevate the images of both companies. Further, by leveraging on COFCO's extensive domestic and overseas distribution network, the Company would be able to further enhance its position in both the domestic and international markets. COFCO's extensive experience in food processing, production and quality control will also be beneficial to the Company in enhancing its product quality and food safety standard.

In addition, the proceeds from the Share Subscription would further strengthen the Company's capital structure and financial position to support its future growth and expansion. In the long run, the Board believes that the partnership with COFCO will potentially create operational synergies and would also help enhancing the overall industry standard which would in turn strengthen consumers' confidence and lead to a healthier and steady growth in the dairy and food industry in the PRC.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Share Subscription, which have been negotiated on an arm's length basis in accordance with normal commercial terms, are fair and reasonable and are in the best interest of the Company.

Sale and Purchase of Existing Shares

The Company has also been notified by each of (i) Jinniu and Yinniu, and (ii) Laoniu that they have, on 5 July 2009, respectively entered into the Jinniu Yinniu SPA and the Laoniu SPA with COFCO and HOPU, the key terms of which are as follows:

Date

5 July 2009

Parties

Jinniu, Yinniu COFCO and HOPU for the Jinniu Yinniu SPA

Laoniu, COFCO and HOPU for the Laoniu SPA

Sale Shares

Under the Jinniu Yinniu SPA, the Shares to be sold comprise 119,516,208 Shares, representing approximately 7.65% of the total issued share capital of the Company as at the date of this announcement. Under the Laoniu SPA, the Shares to be sold comprise 54,283,792 Shares, representing approximately 3.48% of the total issued share capital of the Company as at the date of this announcement.

Consideration

The SPV shall purchase the Jinniu Yinniu Sale Shares and the Laoniu Sale Shares at HK\$ 17.60 per Share. The consideration payable by the SPV for the Jinniu Yinniu Sale Shares and the Laoniu Sale Shares shall be approximately HK\$ 2,103 million and HK\$ 955 million respectively in cash, payable on completion.

Conditions Precedent

The Jinniu Yinniu Sale is conditional upon: (a) there being no breach of any warranty set out in the Jinniu Yinniu SPA which is material in the context of the Jinniu Yinniu Sale or which is material to the Mengniu Group as a whole; and (b) there is no material change in the financial condition, business or prospect of the Mengniu Group. The Laoniu Sale is conditional upon (a) there being no breach of any warranty set out in the Laoniu SPA which is material in the context of the Laoniu Sale or which is material to the Mengniu Group as a whole; and (b) there is no material change in the financial condition, business or prospect of the Mengniu Group.

Undertaking

Each of Jinniu and Yinniu has undertaken that for so long as COFCO, its Affiliates or the SPV together hold 10% or more of the total issued share capital of the Company at any one time, in the event that it intends to dispose of any Shares it holds to any entity which is competing against COFCO or its Affiliates in the dairy or food and beverage sector in China, it shall notify COFCO at least one business day prior to such disposal or to the extent it is impracticable, as soon as practicable before such disposal.

Under the Jinniu Yinniu SPA and Laoniu SPA, completion of the Jinniu Yinniu Sale and the Laoniu Sale shall occur on the 16th business day after the date of the Jinniu Yinniu SPA and the Laoniu SPA, subject to the fulfillment of certain conditions precedent.

In addition, the Company has also been informed by COFCO that it has started preliminary discussions with certain minority shareholders of IM Mengniu, for a feasibility of acquiring certain minority interest in IM Mengniu from such minority shareholders. The Company was informed that as at the date of this announcement, no agreement or conclusion has been reached. Such discussions may or may not lead to any legally binding agreement.

General information

The Company is one of the leading dairy product manufacturers in China, principally engaged in manufacturing and distribution of quality dairy products including liquid milk, ice-cream and other dairy products. COFCO is a wholly-owned subsidiary of COFCO Limited, a state-owned enterprise under the purview of the State-owned Assets Supervision and Administration Commission of the State Council in the PRC. COFCO Limited engages in a wide array of businesses, including, amongst others, agricultural products trading and

processing, food and beverages, in the PRC. HOPU is one of the leading private equity firms, focusing on China investment opportunities with US\$2.5 billion of funds under its management.

Effect of the Share Subscription and the Share Sales

As at the date of this announcement, COFCO and its Affiliates hold, directly and indirectly, 400,000 Shares, and none of HOPU or any of its Affiliates and/or associates, directly or indirectly, holds any Shares. Upon completion of the Share Subscription and the Share Sale, the SPV will hold an aggregate of 347,600,000 Shares, representing approximately 20.03% in the total enlarged issued share capital of the Company. The following table illustrates the shareholding structure of the Company before and after the Share Subscription and Share Sales:

Shareholders	As at the date of this announcement		Immediately after Completion of the Share Subscription		Immediately after Completion of the Share Subscription and the Share Sale	
	No. of Shares held	Percentage of shareholding (approximate)	No. of Shares held	Percentage of shareholding (approximate)	No. of Shares held	Percentage of shareholding (approximate)
Yinniu	132,607,821	8.49	132,607,821	7.64	100,412,466	5.78
Jinniu	123,892,145	7.93	123,892,145	7.14	36,571,292	2.11
Laoniu	54,283,792	3.48	54,283,792	3.13	0	0
Niu Gensheng	68,781,022	4.40	68,781,022	3.96	68,781,022	3.96
Niu Gensheng's concert parties (excluding Niu Gensheng, Jinniu and Yinniu)	57,768,613	3.70	57,768,613	3.33	57,768,613	3.33
SPV	0	0	173,800,000	10.01	347,600,000	20.03
Other Public Shareholders	1,124,526,029	72.00	1,124,526,029	64.79	1,124,526,029	64.79
TOTAL	1,561,859,422	100	1,735,659,422	100	1,735,659,422	100

Suspension and resumption of trading

At the request of the Company, trading in the securities of the Company was suspended on the Stock Exchange from 9:30 a.m. on 6 July 2009 pending release of this announcement.

Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange from 9.30 a.m. on 7 July 2009.

As the Share Subscription and the Share Sale are subject to the fulfillment of a number of conditions and may or may not proceed to completion, shareholders of the Company and prospective investors are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

Unless otherwise defined, terms used in this announcement shall have the meanings set out below:

“Affiliates”	in relation to any person, any person that directly or indirectly Controls such person or is directly or indirectly Controlled by such person, or any person that is under direct or indirect common Control with such person
“Board”	the board of directors of the Company
“business day”	means any day (excluding a Saturday and Sunday) on which banks generally are open for business in the PRC, Hong Kong and the United States of America
“COFCO”	COFCO (Hong Kong) Limited, a limited liability company incorporated in Hong Kong, with its main business being investment holding, including the holding of interests in China Foods Limited and China Agri-Industries Holdings Limited, the shares of which are listed on the main board of the Stock Exchange
“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
“Control”	possession, directly or indirectly, of the power to direct or cause the direction of the operations and management or policies of a person, whether through the ownership of voting securities, by contract or otherwise
“Director(s)”	director(s) of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“HOPU”	HOPU Investment Management Co., Ltd.
“IM Mengniu”	內蒙古蒙牛乳業（集團）股份有限公司 (Inner Mongolia Mengniu Dairy (Group) Company Limited), a 93.29%-owned operating subsidiary of the Company
“Jinniu”	Jinniu Milk Industry Limited, a company incorporated in the British Virgin Islands and owned by certain founding individuals, business associates and employees of IM Mengniu, holding 123,892,145

Shares as at the date of this announcement

“Jinniu Yinniu Sale”	the proposed sale of 87,320,853 Shares and 32,195,355 Shares by Jinniu and Yinniu respectively to the SPV
“Jinniu Yinniu SPA”	the sale and purchase agreement dated 5 July 2009 entered into between Yinniu, Jinniu, COFCO and HOPU
“Jinniu Yinniu Sale Shares”	87,320,853 Shares in respect of Jinniu and 32,195,355 Shares in respect of Yinniu, representing approximately 5.59% and 2.06% respectively of the total issued share capital of the Company as at the date of this announcement
“Laoniu”	Inner Mongolia Laoniu Community Welfare Development Association, an independent third party to the Company and a non-profit making social organisation established in Inner Mongolia, the PRC, which is under the administration of the civil affairs department of the government of Inner Mongolia Autonomous Region and engages in charity work
“Laoniu Sale”	the proposed sale of 54,283,792 Shares by Laoniu to the SPV
“Laoniu SPA”	the sale and purchase agreement dated 5 July 2009 entered into between Laoniu, COFCO and HOPU
“Laoniu Sale Shares”	54,283,792 Shares, representing approximately 3.48% of the total issued share capital of the Company as at the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Lock Up Period”	A 3-year period from closing of the Share Subscription
“Mengniu Group”	the Company and its subsidiaries
“PRC” or “China”	The People’s Republic of China
“Share”	ordinary shares of the Company having a par value of HK\$0.10 each
“Share Sale”	the proposed Jinniu Yinniu Sale and Laoniu Sale
“Share Subscription”	the proposed subscription of the Subscription Shares by COFCO and HOPU (through the SPV) pursuant to the Subscription Agreement
“SPV”	the special purpose vehicle to be established by COFCO and HOPU in which COFCO and HOPU will respectively own, directly or indirectly, 70% and

	30% of its issued share capital
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 5 July 2009 entered into between the Company, COFCO and HOPU in connection with the Share Subscription
“Subscription Price”	HK\$17.60, being the price per Share payable by the SPV for subscribing the Subscription Shares pursuant to the Subscription Agreement
“Subscription Shares”	173,800,000 new Shares to be subscribed by the SPV pursuant to the Subscription Agreement
“Yinniu”	Yinniu Milk Industry Limited, a company incorporated in the British Virgin Islands and owned by certain founding individuals, business associates and employees of IM Mengniu, holding 132,607,821 Shares as at the date of this announcement
“%”	per cent.

By order of the Board
China Mengniu Dairy Company Limited
Niu Gensheng
Chief Executive Officer

Hong Kong, 6 July 2009

As at the date of this announcement, the Board comprises: Mr. Niu Gensheng, Mr. Yang Wenjun, Mr. Sun Yubin, Mr. Yao Tongshan and Mr. Bai Ying as executive directors; Mr. Jiao Shuge (alias Jiao Zhen) and Mr. Julian Juul Wolhardt as non-executive directors; and Mr. Zhang Julin, Mr. Liu Fuchun and Mr. Zhang Xiaoya as independent non-executive directors.

** For identification purposes only*