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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)

**EQUITY JOINT VENTURE CONTRACT
BETWEEN MENGNIU AND DANONE**

Reference is made to the Announcement dated 20 May 2013 in relation to the Framework Agreement entered into between Mengniu and Danone.

On 9 August 2013, Mengniu and Danone entered into the Amended and Restated Framework Agreement pursuant to which the parties have agreed to amend, restate and supersede the Framework Agreement.

On the same day, Mengniu entered into the Equity Joint Venture Contract with Danone for the establishment of JV Holdco in relation to the proposed sino-foreign equity joint venture arrangement for the Chilled Business in the Territory.

Under the Amended and Restated Framework Agreement, a total of 11 equity joint venture contracts are contemplated to be entered into by Mengniu and Danone in respect of each of JV Holdco and the relevant JV Companies under the Joint Venture. As the applicable percentage ratios are less than 5%, the formation of the Joint Venture does not constitute a notifiable transaction of the Company under the Listing Rules.

Subject to conditions set out in the Amended and Restated Framework Agreement for the execution of definitive joint venture documents of the relevant JV Companies being satisfied or waived, Mengniu and Danone will further enter into an equity joint venture contract in respect of each relevant JV Company with the same principal terms as the Equity Joint Venture Contract.

Completion of the Joint Venture is subject to conditions, which include among other things, all necessary approvals and consents from the relevant PRC governmental and regulatory authorities, which may or may not be forthcoming.

The transaction contemplated by the Equity Joint Venture Contract therefore may or may not proceed. Investors or prospective investors are advised to exercise caution in investing or dealing in the shares of the Company.

Reference is made to the Announcement. Unless otherwise defined in this announcement, capitalized terms shall have the same meanings as defined in the Announcement.

AMENDED AND RESTATED FRAMEWORK AGREEMENT

On 9 August 2013, Mengniu and Danone entered into the Amended and Restated Framework Agreement pursuant to which the parties have agreed to amend, restate and supersede the Framework Agreement. The main amendments include conditions for entering into the equity joint venture contracts in respect of JV Holdco and the relevant JV Companies, conditions for Completion, and the assumption of certain liabilities of Mengniu Chilled Business Subsidiaries by the relevant JV Companies.

(a) Conditions for entering into Equity Joint Venture Contract

Since the signing of the Framework Agreement, some of the conditions for entering into the equity joint venture contracts have been satisfied and others revised. For example, the forms and terms of the management service agreement, brand license agreement and the know-how license agreement have been agreed.

Under the Amended and Restated Framework Agreement, the remaining or revised conditions to the parties' respective obligations to execute the relevant equity joint venture contracts are stated to include, inter alia:

(i) warranties given by Mengniu and Danone being true, accurate and not misleading in all material respects;

(ii) there has been no material breach by Mengniu and Danone of their respective covenants, agreements and undertakings, save for those that would not give rise to a material adverse change in the Chilled Business in the Territory of the party in breach; and

(iii) there has been no material adverse change to the Chilled Business in the Territory of the Group and Danone Group.

As the conditions set out in the Amended and Restated Framework Agreement for entering into the equity joint venture contract in respect of JV Holdco have been satisfied, on 9 August 2013, Mengniu entered into the Equity Joint Venture Contract with Danone in relation to the establishment of JV Holdco. For details, please refer to "Principal terms of the Equity Joint Venture Contract" below.

(b) Conditions for Completion

Pursuant to the Amended and Restated Framework Agreement, Completion, which shall take place in stages, is subject to the satisfaction or waiver of additional or revised conditions, including inter alia:

(i) Mengniu and Danone shall approve each other's disclosure statements of specific facts and circumstances with respect to the relevant warranties respectively given;

(ii) Mengniu and Danone shall approve each other's plan of restructuring of their respective existing Chilled Business in the Territory, and the restructuring by each of Mengniu and Danone of their respective existing Chilled Business in the Territory shall have been completed according to such restructuring plans;

(iii) there has been no material adverse change to the Chilled Business in the Territory of Danone Group;

(iv) Mengniu shall have delivered to Danone the requisite financial statements of the JV Companies;

(v) certain equipment and construction-in-progress of Mengniu shall be owned by JV Holdco or the relevant JV Companies;

(vi) the acceptance of application to the relevant governmental authorities for the transfer of ownership of certain land use rights and buildings to the relevant JV Companies,;

(vii) the relevant ancillary contracts including management service agreement, brand license agreement, know-how license agreement, milk supply agreements and other ancillary agreements shall have been properly and validly entered into by the parties thereto in accordance with the Amended and Restated Framework Agreement; and

(viii) the completion of transfer of ownership of certain relevant buildings and land use rights to the relevant JV Companies and the obtaining of land use rights certificates and building certificates in the name of such JV Companies.

Under the Amended and Restated Framework Agreement, a total of 11 equity joint venture contracts are contemplated to be entered into by Mengniu and Danone in respect of each of JV Holdco and the relevant JV Companies under the Joint Venture. As the applicable percentage ratios are less than 5%, the formation of the Joint Venture does not constitute a notifiable transaction of the Group under the Listing Rules.

PRINCIPAL TERMS OF THE EQUITY JOINT VENTURE CONTRACT

The Board is pleased to announce that, on 9 August 2013, Mengniu entered into the Equity Joint Venture Contract with Danone for the establishment of JV Holdco.

Subject to conditions set out in the Amended and Restated Framework Agreement for the execution of definitive joint venture documents of the relevant JV Companies being satisfied or waived, in addition to the Equity Joint Venture Contract, Mengniu and Danone will further enter into an equity joint venture contract in respect of each relevant JV Company, with the same principal terms including provisions relating to termination and termination rights (the details of which are set out below) as the Equity Joint Venture Contract.

The principal terms of the Equity Joint Venture Contract are as follows:

(a) Parties

Mengniu
Danone

(b) JV Holdco and its business scope

When established, JV Holdco will be a sino-foreign equity joint venture company with limited liability under PRC laws and relevant regulations and will hold all equity interest in each of the Danone Chilled Business Subsidiaries.

The scope of business of JV Holdco shall be to produce, promote, market and sell chilled yoghurt, chilled yoghurt drinks and chilled spoonable dairy based desserts, each of which requires refrigeration for preservation, in the Territory. The business of JV Holdco does not include cheese or cheese based products and yoghurt refers only to cow milk based yogurt.

(c) Parties' contributions

Mengniu will contribute certain of its assets and liabilities relating to its Chilled Business subsequent to the restructuring of the Group's Chilled Business, while Danone will contribute certain of its assets and liabilities relating to its Chilled Business in the Territory subsequent to restructuring and Danone Cash Contribution.

Upon Completion, Mengniu and Danone shall own 80% and 20% of the total registered capital of JV Holdco respectively. Other than the sum recorded in the registered capital of JV Holdco, Danone's contribution shall be recorded as capital

surplus in the books of JV Holdco.

(d) Term of JV Holdco

The term of JV Holdco shall be thirty (30) years starting from the date on which the relevant business license of JV Holdco is issued by the relevant governmental authority, subject to extensions if so agreed between the parties and approved by the relevant authorities.

(e) Board Composition

The board of directors is the highest authority of JV Holdco. The board of JV Holdco shall consist of six directors, four appointed by Mengniu, and two appointed by Danone. The board shall have one chairman appointed by Mengniu and one vice-chairman appointed by Danone. JV Holdco shall also have a board of supervisors, who have the powers of, inter alia, supervising the performance of duties by the directors and senior management of JV Holdco. The board of supervisors will comprise three members, with one supervisor representing each of Mengniu and Danone, and the third supervisor representing the employees of JV Holdco.

(f) Profit distribution

Mengniu shall, within three (3) months after the end of each financial year, cause JV Holdco to distribute profit for that financial year as dividends to Mengniu and Danone in accordance with their respective share in the registered capital of JV Holdco in accordance with the Equity Joint Venture Contract.

(g) Termination and Termination Rights of the Parties

The Equity Joint Venture Contract may be terminated by:

- (1) mutual consent of Mengniu and Danone;
- (2) either party should the relevant closing under the Amended and Restated Framework Agreement has not occurred by 31 December 2013 or the 18-month anniversary of 9 August 2013 (as the case may be), provided that such right shall not be available to the party whose default has led to the failure of such closing to occur; or
- (3) either party pursuant to certain triggering events (the “**Triggering Events**”) detailed below subsequent to the relevant closing date stipulated under the Amended and Restated Framework Agreement.

Under the Equity Joint Venture Contract, the rights to terminate the Equity Joint Venture Contract (the “**Termination Rights**”) will be granted to both Mengniu and Danone. Either Danone (if it is the terminating party) may exercise its Termination Rights and sell its entire 20% equity interest in JV Holdco and the JV Companies (the “**Danone’s Stake**”) to Mengniu, or Mengniu (if it is the terminating party) may exercise its Termination Rights and buy from Danone, the Danone’s Stake.

The exercise price (the “**Exercise Price**”) in relation to the Termination Rights shall be determined as follows:

- (i) (A) the offer price which the terminating party states in the offer notice to the non-terminating party if the non-terminating party accepts or fails to respond to such offer price or (B) if the terminating party fails to state the price offered in the offer notice and the non-terminating party fails to appoint an appraiser, the sum of Danone’s initial contribution and all its subsequent contributions to the Joint Venture (individually, the “**Offer Price**”), such offer price would be the Exercise Price;
- (ii) if the non-terminating party does not agree on the Offer Price and appoints an appraiser, and the terminating party fails to appoint an appraiser, or if the terminating party fails to state the price offered in the offer notice and the non-terminating party appoints an appraiser, then the Exercise Price would be the fair market value (the “**FMV Price**”) as determined by the appraiser appointed by the non-terminating party;
- (iii) if both the terminating party and the non-terminating party appoint their respective appraisers, the price as agreed by the parties based on the FMV Price determined by their appraisers; or
- (iv) the FMV Price determined by the third appraiser if the parties cannot agree on the FMV Price determined by the first two appraisers appointed pursuant to (iii) above.

Danone’s option

Under the Equity Joint Venture Contract, an option was granted to Danone to terminate the Equity Joint Venture Contract and sell the entire Danone’s Stake to Mengniu at the Exercise Price within a 15-day period at the beginning of each biennial (2-year) period from the seventh (7th) anniversary of the relevant closing date under the Amended and Restated Framework Agreement, subject to compliance with the then applicable laws and regulations (including the Listing Rules) by the Company, including the then relevant Listing Rules in connection with connected transactions. Mengniu shall cause to be taken actions required to effect such compliance, including the convening of a meeting of shareholders by the Company to the extent required under such applicable laws and regulations.

(h) Triggering Events in relation to the Termination Rights

The Triggering Events that allow the parties to exercise their Termination Rights are as follow:

(1) Change of control

Danone may exercise its right to terminate the Equity Joint Venture Contract and sell the Danone's Stake to Mengniu at a change of control event in relation to Mengniu at the Exercise Price and Mengniu may exercise its right to terminate the Equity Joint Venture Contract and buy the Danone's Stake at a change of control event in relation to Danone at the Exercise Price.

A "change of control event" in relation to Mengniu shall be a change of control (as "control" is defined in the Code on Takeovers and Mergers and Share Repurchases) of Mengniu, the Company or a change of the controlling shareholder of Mengniu (by itself or with its associates (as defined in the Listing Rules) have control of Mengniu). A "change of control event" in relation to Danone shall occur when Danone is no longer under the control (as defined in the Code on Takeovers and Mergers and Share Repurchases) of Danone S.A.;

(2) A major breach of the Equity Joint Venture Contract

If a major breach, as defined under the Equity Joint Venture Contract, is committed by Danone, Mengniu, being the non-defaulting and terminating party, shall have the right to buy the Danone's Stake at 60% or 80% of the Exercise Price (as the case may be depending on the nature of the major breach as specified under the Equity Joint Venture Contract).

If a major breach, as defined under the Equity Joint Venture Contract, is committed by Mengniu, Danone, being the non-defaulting and terminating party, shall have the right to sell the Danone's Stake at 120% or 140% of the Exercise Price (as the case may be depending on the nature of the major breach as specified under the Equity Joint Venture Contract).

If Danone exercises such Termination Right and sell the Danone's Stake within 3 years of Initial Closing of the Amended and Restated Framework Agreement, Danone may also exercise its right to buy assets it has contributed to the Joint Venture at Completion at the price offered by Danone or the FMV Price (if the Mengniu disagrees with the price offered by Danone) for such assets.

Where the Joint Venture's non-compliance with applicable quality standards results in a significant adverse effect on either Mengniu or Danone's reputation or on the financial condition or operation of the Joint Venture (the "**Major Quality**

Incident”), Danone shall have the right to terminate and sell to Mengniu the Danone’s Stake at the Exercise Price valued immediately prior to the occurrence of the Major Quality Incident.

(3) A material breach of the Equity Joint Venture Contract

In the event of a material breach (as defined in the Equity Joint Venture Contract) of the Equity Joint Venture Contract or the articles of association of the relevant joint venture company by Danone after the third anniversary of the relevant closing date as stipulated under the Amended and Restated Framework Agreement, which is not cured within 120 days after being notified by Mengniu, the non-breaching party, Danone shall sell (and Mengniu shall buy) the Danone’s Stake at 90% of the Exercise Price. If Mengniu is the party in breach, Mengniu shall buy (and Danone shall sell) the Danone’s Stake at 110% of the Exercise Price.

(4) Overseas competition

If the Group develops or acquires a business in chilled yoghurt, chilled yoghurt drinks and chilled spoonable dairy based dessert which is not conducted together with Danone S.A. or its affiliates in a key country where Danone S.A. has a substantial market share (as specified in the Equity Joint Venture Contract), Danone shall have a right to sell the Danone’s Stake at the Exercise Price to Mengniu.

(5) Voluntary sale of interests in the Company by Danone S.A.

Should there be a voluntary sale of interest in the Company by a member of the Danone Group leading to its aggregate shareholding in the Company (direct or indirect) to fall below 4%, Mengniu shall have a right to terminate the Equity Joint Venture Contract and buy the Danone’s Stake at the Exercise Price.

(6) Domestic Competition

Should either party or its affiliates (as defined under the Equity Joint Venture Contract) acquire control in certain competing chilled yoghurt business in the PRC, and either (i) such competing chilled yoghurt business acquired is not contributed to the Joint Venture or (ii) the offer to sell such competing chilled yoghurt business to the JV Holdco or the relevant JV Companies is not accepted by the relevant board of directors, then the non-acquiring party shall, if it is Mengniu, have a right to buy (and Danone shall sell) or, if it is Danone, shall have a right to sell (and Mengniu shall buy) the Danone’s Stake at the Exercise Price.

If any of the Termination Rights which is exercisable at Danone’s discretion is exercised by Danone, the Company will issue an announcement pursuant to the Listing Rules. If Mengniu decides to exercise any of the Termination Rights which is exercisable at its

discretion, such exercise will be subject to compliance with the Listing Rules by the Company.

The Equity Joint Venture Contract will become effective upon obtaining approvals from the relevant authorities, including the Ministry of Commerce of the PRC.

REASON FOR THE FORMATION OF THE JOINT VENTURE

The formation of the Joint Venture is intended to serve as the only platform for Mengniu and Danone to acquire, invest in and operate the Chilled Business in the Territory, with the aim of cooperatively developing an extensive chilled yoghurt product portfolio.

INFORMATION ON DANONE GROUP

Danone Group is a multi-national corporation and a global leader in food products, including fresh dairy products and other health and nutrition food products. To the best of the Board's knowledge, Danone and its ultimate beneficial owner are independent third parties of the Company and its connected persons prior to Completion.

INFORMATION ABOUT THE GROUP

The Group 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.

GENERAL

Completion is subject to conditions, which include among other things, all necessary approvals and consents from the relevant PRC governmental and regulatory authorities, which may or may not be forthcoming. The transaction contemplated by the Equity Joint Venture Contract therefore may or may not proceed. Investors or prospective investors are advised to exercise caution in investing or dealing in the shares of the Company.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms have the meanings as defined below:

Amended and Restated Framework Agreement	the Amended and Restated Framework Agreement entered into between Mengniu and Danone on 9 August 2013
Announcement	the announcement of the Company dated 20 May 2013 in relation to the Framework Agreement for the proposed sino-foreign equity joint venture arrangement for the Chilled Business in the Territory
Board	the board of directors of the Company
Chilled Business	the production, promotion, marketing and sale of chilled yoghurt, chilled yoghurt drinks and chilled spoonable dairy based desserts
Company	China Mengniu Dairy Company Limited
Completion	completion of the Joint Venture
Danone	Danone Asia Pte Ltd., a company established and existing under the laws of Singapore
Danone Cash Contribution	the contribution of RMB 1.25 billion in cash by Danone (subject to adjustments)
Danone Chilled Business Subsidiaries	the two wholly-owned subsidiaries of Danone Group in relation to the Chilled Business in the Territory subsequent to the restructuring
Danone Group	Danone S.A., Danone and other companies directly or indirectly controlled by Danone S.A.
Equity Joint Venture Contract	the joint venture contract entered into by Mengniu and Danone in relation to JV Holdco dated 9 August 2013
Framework Agreement	the framework agreement entered into between Mengniu and Danone in relation to the Joint Venture on 20 May 2013
Group	the Company and its subsidiaries
Hong Kong	the Hong Kong Special Administrative Region of the People's Republic of China
Initial Closing	Danone's contribution of its equity interest in Danone Chilled Business Subsidiaries (subsequent to the restructuring) together with the relevant portion of the Danone Cash Contribution and the Mengniu's contribution of its relevant assets and related liabilities in its Chilled Business to the Joint Venture
Joint Venture	the proposed sino-foreign equity joint venture arrangement for the Chilled Business in the Territory under the Amended and Restated Framework Agreement, which include JV Holdco and the JV Companies
JV Companies	Danone Chilled Business Subsidiaries and Mengniu Chilled Business Subsidiaries which will be converted into 12 joint venture companies under the Joint Venture
JV Holdco	the holding company of the JV Companies to be established

	under the laws of the PRC
Listing Rules	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
Mengniu	Inner Mongolia Mengniu Dairy (Group) Co., Ltd (內蒙古蒙牛乳業(集團)股份有限公司), a principal operating subsidiary of the Company established in the PRC
Mengniu Chilled Business Subsidiaries	the 10 existing subsidiaries of Mengniu in relation to the Chilled Business in the Territory subsequent to the restructuring
PRC	the People's Republic of China, for the purposes of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
RMB	Renminbi, the lawful currency of the PRC
Stock Exchange	The Stock Exchange of Hong Kong Limited
Territory	the PRC, Hong Kong and the Macau Special Administrative Region of the People's Republic of China
%	per cent

By Order of the Board
China Mengniu Dairy Company Limited
Sun Yiping
Chief Executive Officer and Executive Director

Hong Kong, 11 August 2013

As at the date of this announcement, the Board comprises: Ms. Sun Yiping, Mr. Bai Ying, Mr. Wu Jingshui and Mr. Ding Sheng as executive directors, Mr. Ning Gaoning, Mr. Yu Xubo, Mr. Niu Gensheng, Mr. Ma Jianping, Mr. Tim Ørting Jørgensen, Mr. Finn S. Hansen and Ms. Liu Ding as non-executive directors, Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Liu Fuchun, Mr. Zhang Xiaoya, Mr. Andrew Y. Yan and Mr. Wu Kwok Keung Andrew as independent non-executive directors.

** For identification purposes only*