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蒙牛

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)

ISSUANCE OF EXCHANGEABLE BOND BY CHINA MENGNIU DAIRY COMPANY LIMITED EXCHANGEABLE INTO ORDINARY SHARES OF CHINA MODERN DAIRY HOLDINGS LTD.

Sole Global Coordinator and Joint Bookrunner

DBS

Joint Bookrunner

BOCI

* *For identification purposes only*

The Board is pleased to announce that on 18 May 2017 (after trading hours), the Company entered into the Subscription Agreement with the Lead Managers in connection with the issue of Bonds in the aggregate principle amount of US\$194,800,000 by the Company which are exchangeable into CMD Shares.

A Bond may, during the exchange period, be exchanged for a pro rata share of the Exchange Property. Assuming the Bonds are fully exchanged into CMD Shares at the initial notional exchange price of HK\$2.1995 per CMD Share, the Bonds will be exchangeable into 689,438,782 CMD Shares (subject to adjustment), representing approximately 11.24% of the issued share capital of CMD as at the date of this announcement.

The Bonds will only be offered outside the United States in compliance with Regulation S under the Securities Act. None of the Bonds will be offered to the public in Hong Kong and none of the Bonds will be placed to any connected persons of the Company.

The Company intends to use the net proceeds of the issue of the Bonds to refinance certain of its existing indebtedness and for general corporate purpose.

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issue to professional investors (as defined in Chapter 37 of the Listing Rules and in the SFO) only. Listing of the Bonds on the Stock Exchange is not to be taken as an indication of the merits of the Bonds or the Company.

INTRODUCTION

The Board is pleased to announce that on 18 May 2017 (after trading hours), the Company entered into the Subscription Agreement with the Lead Managers in connection with the issue of Bonds in the aggregate principle amount of US\$194,800,000 by the Company which are exchangeable into CMD Shares.

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The Bonds will only be offered outside the United States in compliance with Regulation S under the Securities Act. None of the Bonds will be offered to the public in Hong Kong and none of the Bonds will be placed to any connected persons of the Company.

THE SUBSCRIPTION AGREEMENT

Date

18 May 2017 (after trading hours)

Parties to the Subscription Agreement

- (a) the Company as issuer; and
- (b) the Lead Managers as the lead managers.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Lead Managers is an independent third party and not a connected person of the Company.

Conditions Precedent

Completion of the Subscription Agreement is conditional on the following conditions precedents:

- (a) the Lead Managers being reasonably satisfied with the results of its due diligence investigations with respect to the Company, CMD and their respective subsidiaries and the Offering Circular shall have been prepared in form and content satisfactory to the Lead Managers;
- (b) the execution and delivery (on or before the Closing Date) of the Trust Deed and the Agency Agreement, each in a form reasonably satisfactory to the Lead Managers, by the respective parties;
- (c) on or prior to the Closing Date, there having been delivered to the Lead Managers a copy of: (i) the constitutive documents of the Company; and (ii) the resolutions of the Board authorising the execution of the Subscription Agreement, the Trust Deed and the Agency Agreement, the issue of the Bonds and the entry into and performance of the transactions contemplated;
- (d) upon the date of the Offering Circular and on the Closing Date, there having been delivered to the Lead Managers letters, in form and substance satisfactory to the Lead Managers, dated the date of the Offering Circular in the case of the first letter and dated the Closing Date in the case of the subsequent letters, and addressed to the Lead Managers from each of (i) Ernst & Young, auditors to the Company; and (ii) Deloitte Touche Tohmatsu, auditors to CMD;

- (e) at the Closing Date: (i) the representations and warranties of the Company in the Subscription Agreement being true and accurate at, and as if made on such date; (ii) the Company having performed all of its obligations under the Subscription Agreement to be performed on or before such date; and (iii) there having been delivered to the Lead Managers a certificate confirming no material adverse change, in the form attached to the Subscription Agreement, dated as of such date, of a duly authorised officer of the Company to such effect;
- (f) after the date hereof or, if earlier, the dates as of which information is given in the Offering Circular up to and at the Closing Date, there shall not have occurred any change (nor any development or event involving a prospective change), in the financial condition, prospects, earnings, results of operations or business of (i) the Company or of (ii) the Company and its subsidiaries taken as a whole, which, in the opinion of the Lead Managers, is material and adverse in the context of the issue and offering of the Bonds;
- (g) on or prior to the Closing Date there shall have been delivered to the Lead Managers copies of all consents and approvals required in relation to the issue of the Bonds and the performance of its obligations under the Trust Deed, the Agency Agreement and the Bonds (including the consents and approvals (if any) required from all lenders);
- (h) there having been delivered to the Lead Managers a certificate of no default in the form attached to the Subscription Agreement dated the Closing Date, of a duly authorised officer of the Company;
- (i) the Stock Exchange having agreed, subject to any conditions reasonably satisfactory to the Lead Managers, to list the Bonds (or, in each case, the Lead Managers being reasonably satisfied that such listing will be granted);
- (j) there having been delivered to the Lead Managers the executed copies of the fee letters before 26 May 2017; and
- (k) on or before the Closing Date, there having been delivered to the Lead Managers opinions, in form and substance satisfactory to the Lead Managers, dated the Closing Date, of legal advisers to the Company and Lead Managers as required under the Subscription Agreement, and such other resolutions, consents, authorities and documents relating to the issue of the Bonds, as the Lead Managers may reasonably require.

The Lead Managers may, at their discretion and upon such terms as they think fit, waive compliance with the whole or any part of the conditions precedent above.

Completion of the Subscription Agreement

Completion of the Subscription Agreement and the issuance of the Bonds shall take place on 5 June 2017, or such later date, not being later than 19 June 2017, as the Company and the Lead Managers may agree.

Termination

The Lead Managers may, by notice to the Company given at any time prior to payment of the net subscription monies for the Bonds to the Company, terminate the Subscription Agreement in any of the following circumstances:

- (a) if there shall have come to the notice of the Lead Managers any breach of, or any event rendering untrue or incorrect in any respect, any of the warranties and representations contained in the Subscription Agreement or any failure to perform any of the Company's undertakings or agreements in the Subscription Agreement;
- (b) if any of the conditions precedents specified in the Subscription Agreements has not been satisfied or waived by the Lead Managers on or prior to the Closing Date;
- (c) if in the opinion of the Lead Managers, there shall have been, since the date of the Subscription Agreement, any change, or any development involving a prospective change, in national or international monetary, financial, political or economic conditions (including any disruption to trading generally, or trading in any securities of the Company or CMD on any stock exchange or in any over-the-counter market) or currency exchange rates or foreign exchange controls such as would in the Lead Manager's reasonable opinion, be likely to prejudice materially the success of the offering and distribution of the Bonds or dealings in the Bonds in the secondary market;
- (d) if, in the reasonable opinion of the Lead Managers, there shall have occurred any of the following events: (i) a suspension or a material limitation in trading in securities generally on the New York Stock Exchange, the London Stock Exchange plc, and/or the Stock Exchange; (ii) a suspension (to the extent such suspension is other than in the ordinary course of business of CMD) or a material limitation in trading in CMD's securities on the Stock Exchange; (iii) a general moratorium on commercial banking activities in the United States, Hong Kong and/or the United Kingdom declared by the relevant authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States, Hong Kong or the United Kingdom; or (iv) a change in taxation affecting the Company, the Bonds and the CMD Shares or the transfer thereof, which would in the Lead Managers' reasonable opinion be likely to prejudice materially the success of the offering and distribution of the Bonds or dealings in the Bonds in the secondary market; and
- (e) if, in the opinion of the Lead Managers, there shall have occurred any event or series of events (including the occurrence of any local, national or international outbreak or escalation of disaster, hostility, insurrection, armed conflict, act of terrorism, act of God or epidemic) as would in the Lead Managers' reasonable opinion be likely to prejudice materially the success of the offering and distribution of the Bonds or dealings in the Bonds in the secondary market.

PRINCIPAL TERMS OF THE BONDS

Set out below is a summary of the principal terms of the Bonds.

Issuer:	China Mengniu Dairy Company Limited
Principal Amount:	US\$194,800,000
Form and Denomination of the Bonds:	The Bonds will be issued in registered form in the denominations of US\$200,000 each and integral multiples in excess thereof
Issue Price:	The Bonds will be issued at 100% of the principal amount
Interest:	The Bonds are zero coupon bonds and do not bear interest
Maturity Date:	5 June 2022
Ranking of the Bonds:	The Bonds will constitute direct, unsubordinated, unconditional and, subject to negative pledge provisions therein, unsecured obligations of the Company and shall at all times rank pari passu without any preference or priority amongst themselves. The payment obligations of the Company under the Bond shall, save for such exceptions as may be required by mandatory provisions of applicable law, rank at least equally with all other present and future unsecured and unsubordinated obligations of the Company.
Exchange Right:	<p>The Bonds are exchangeable into CMD Shares, at any time on and after 16 July 2017 and up to the close of business (at the place the Bonds are deposited for exchange) on the date falling 10 days prior to the Maturity Date (or, if that is not a business day on which commercial banks are open for business in Hong Kong, on the immediately preceding business day) or if such Bond shall have been called for redemption prior to the Maturity Date, then up to the close of business (at the place aforesaid) on the date falling 10 days prior to the redemption date or the date the Bonds are payable.</p> <p>A Bond may, during the exchange period, be exchanged for a pro rata share of the Exchange Property.</p>
Exchange Property:	The Exchange Property shall initially comprise 689,438,782 CMD Shares, deposited in the designated account, and shall include all relevant securities and other property arising out of or derived or resulting therefrom and such other property, in each case as may be deemed or required to comprise all or part of the Exchange Property pursuant to the the Bonds, but excluding any such property as may or may be deemed to have ceased to form part of the Exchange Property pursuant to the Bonds.

Number of CMD Shares Exchangeable: 707,842.69 CMD Shares will be exchangeable per US\$200,000 in principal amount of the Bonds, based on the initial notional exchange price of HK\$2.1995

Ranking of CMD Shares: The CMD Shares into which the Bonds are exchangeable shall rank pari passu and carry the same rights and privileges in all respects as any other CMD Shares

Adjustments to the Exchange Property: The Bonds will contain provisions for the adjustment of the Exchange Property in the event of the occurrence of certain events including, among others, sub-division, consolidation or redenomination, rights issues, bonus issues, capital distributions and reorganisations. The Bonds also contain provisions for the adjustment of the Exchange Property in relation to general offers.

Redemption: (1) Redemption at maturity

Unless previously redeemed, exchanged or purchased and cancelled, the Company will redeem the Bonds at 106.43% of their principal amount on the Maturity Date.

(2) Redemption for taxation reasons

At any time the Company may, having given not less than 30 nor more than 60 days' notice to the Bondholders (which notice will be irrevocable), redeem the Bonds in whole but not in part at their Early Redemption Amount if

(i) the Company has or will become obliged to pay additional tax amounts as provided or referred to in the Bonds as a result of any change in, amendment or non-renewal of, or judicial decision relating to, the law or regulations of the PRC, Hong Kong, the Cayman Islands or any political subdivision or any authority thereof or therein or having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 18 May 2017, and

(ii) such obligation cannot be avoided by the Company taking reasonable measures available to it,

provided that no such notice of redemption will be given earlier than 90 days before the earliest date on which the Company would be obligated to pay such additional tax amounts were a payment in respect of the Bonds then due; provided further, that no such redemption may be made such that the redemption date therefor is set during a suspension period.

(3) Redemption at the option of the Company

The Bonds may be redeemed at the option of the Company at their Early Redemption Amount:

- (i) in whole but not in part, at any time from and including 5 June 2020 to but excluding the Maturity Date, provided that the closing price of the CMD Shares on each of 20 out of 30 consecutive trading days the last day of which period occurs no more than five trading days immediately prior to the date on which the relevant notice of redemption is given by the Company to the Bondholders shall have exceeded 130% of the aggregate Early Redemption Amount of the Bonds outstanding on such trading day (excluding for this purpose the face value of any Bonds in respect of which Exchange Rights have been exercised by a Bondholder but the Exchange Property has not yet been delivered and excluding from the Exchange Property such undelivered (or unpaid) Exchange Property); or
- (ii) in whole but not in part, at any time from and including 5 June 2020 to but excluding the Maturity Date, if prior to the date on which the relevant notice of redemption is given by the Company less than 10% in aggregate principal amount of the Bonds originally issued is outstanding.

(4) Redemption at the option of the Bondholders

On 5 June 2020 (the “**Put Option Date**”), the holder of each Bond will have the right at such holder’s option, to require the Company to redeem all or some only of the Bonds of such holder on the Put Option Date at their Early Redemption Amount.

(5) Redemption at the option of Bondholders upon delisting, suspension of trading or a change of control

The holder of each Bond will have the right, at such holder’s option, to require the Company to redeem all or some only of such holder’s Bonds at their Early Redemption Amount, in the event that:

- (i) the CMD Shares cease to be listed or admitted to trading or are suspended from trading for a period exceeding 30 consecutive trading days on the Stock Exchange; or
- (ii) there is a change of control of the Company and/or CMD pursuant to the terms of the Bonds.

Purchase: The Company or any of its principal subsidiaries or affiliates may at any time and from time to time purchase the Bonds at any price in the open market or otherwise.

Cancellation: All Bonds redeemed or purchased by the Company or any of its principal subsidiaries or affiliates will be surrendered for cancellation.

Early Redemption Amount: The applicable Early Redemption Amount for each US\$200,000 principal amount of Bonds is calculated in accordance with the following formula, rounded (if necessary) to two decimal places with 0.005 being rounded upwards (provided that if the date fixed for redemption is a semi-annual date (as set out below), such Early Redemption Amount shall be as set out in the table below in respect of such date):

$$\text{Early Redemption Amount} = \text{Previous Redemption Amount} \times (1 + r/2)^{d/p}$$

Previous Redemption Amount = the Early Redemption Amount for each US\$200,000 principal amount of the Bonds on the interest payment date immediately preceding the date fixed for redemption as set out below (or if the Bonds are to be redeemed prior to 5 December 2017, US\$200,000):

Semi-Annual Date	Early Redemption Amount (US\$)
5 December 2017	201,250
5 June 2018	202,507.81
5 December 2018	203,773.49
5 June 2019	205,047.07
5 December 2019	206,328.61
5 June 2020	207,618.17
5 December 2020	208,915.78
5 June 2021	210,221.51
5 December 2021	211,535.39

$r = 1.25\%$ expressed as a fraction

d = number of days from and including the immediately preceding interest payment date (or if the Bonds are to be redeemed on or before 5 December 2017, from and including the Closing Date) to, but excluding, the date fixed for redemption, calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed

$p = 180$

Negative Pledge: For so long as any Bond remains outstanding, the Company will not, and the Company will ensure that none of its principal subsidiaries (other than a Listed Subsidiary) will, create any encumbrance or permit to exist any encumbrance to secure any Relevant Indebtedness as specified in the terms of the Bonds, or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds either (i) the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or (ii) such other security as either the Trustee shall in its absolute discretion deem not materially less beneficial to the interest of the Bondholders or shall be approved by an extraordinary resolution of the Bondholders.

SECURITIES LENDING AGREEMENT

In connection with the issuance of the Bonds, the Company, as lender, has entered into the Securities Lending Agreement with BOCI Financial Products Limited pursuant to which the Company agrees to lend to BOCI Financial Products Limited up to 689,438,782 CMD Shares in aggregate, which represent approximately 11.24% of the issued share capital of CMD as at the date of this announcement.

REASON FOR THE ISSUE OF THE BONDS AND USE OF PROCEEDS OF THE BONDS

The Directors are of the view that the issue of the Bonds enables the Company to reduce its financing cost.

The Company intends to use the net proceeds of the issue of the Bonds to refinance certain of its existing indebtedness and for general corporate purpose.

LISTING OF THE BONDS

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issue to professional investors (as defined in Chapter 37 of the Listing Rules and in the SFO) only. Listing of the Bonds on the Stock Exchange is not to be taken as an indication of the merits of the Bonds or the Company.

EFFECT ON THE SHAREHOLDING STRUCTURE OF CMD

Assuming that no CMD Shares will be issued by CMD, to the best knowledge of the Company, the shareholdings of CMD as at the date of this announcement and as a result of full exchange of the Bonds are as follows:

	As at the date of this announcement		Assuming the Bonds are fully exchanged into CMD Shares at the initial notional exchange price	
	Number of CMD Shares	Approximate %	Number of CMD Shares	Approximate %
Substantial Shareholders				
The Company	1,347,903,000	22.0%	658,464,218	10.7%
Future Discovery	2,407,866,412	39.3%	2,407,866,412	39.3%
Sub-total	3,755,769,412	61.3%	3,066,330,630	50.0%
Xinmu Holdings Co. Ltd ⁽¹⁾	263,716,426	4.3%	263,716,426	4.3%
Yinmu Holdings Co. Ltd ⁽¹⁾	263,703,294	4.3%	263,703,294	4.3%
Jinmu Holdings Co. Ltd ⁽²⁾	221,581,733	3.6%	221,581,733	3.6%
Directors and Chief Executives				
Gao, Lina ⁽²⁾	4,800,000	0.1%	4,800,000	0.1%
Other Public Shareholders	1,621,835,841	26.5%	2,311,274,623	37.7%
Total	6,131,406,706	100%	6,131,406,706	100%

Notes:

- The 263,716,426 CMD Shares held by Xinmu Holdings Co. Ltd as at the date of this announcement, the 263,703,294 CMD Shares held by Yinmu Holdings Co. Ltd as at the date of this announcement and the 1,621,835,841 CMD Shares held by the "Other Public Shareholders" as at the date of this announcement are considered to be CMD Shares held by the public (within the meanings of the Listing Rules). Accordingly, 2,149,255,561 CMD Shares, representing approximately 35.1% of the entire issued share capital of CMD as at the date of this announcement, are held by the public (within the meanings of the Listing Rules).
- Ms. Lina Gao is the legal and beneficial owner of 4,800,000 CMD Shares. In addition, Ms. Lina Gao holds approximately 49.12% of the interests in Jinmu Holdings Co. Ltd.

DEFINITIONS

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

“Agency Agreement”	an agency agreement to be entered into between the Company and The Hong Kong and Shanghai Banking Corporation Limited as the principal paying, transfer and exchange agent and as the registrar in relation to the Bonds
“Board”	the board of directors of the Company
“BOCI”	BOCI Asia Limited
“Bondholder”	holder of the Bonds
“Bonds”	the zero-coupon exchangeable bonds due 2022 in the principal amount of US\$194,800,000 to be issued by the Company
“Closing Date”	the date on which the Bonds will be issued
“CMD”	China Modern Dairy Holdings Ltd., a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1117)
“CMD Shares”	ordinary share(s) of par value of HK\$0.10 each in the shares capital of CMD
“Company”	China Mengniu Dairy Company Limited (中國蒙牛乳業有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 2319)
“connected person”	has the meaning ascribed to it under the Listing Rules
“DBS”	DBS Bank Ltd.
“Directors”	directors of the Company
“Early Redemption Amount”	an amount for each US\$200,000 in principal amount of the Bonds, determined to represent for the holder of the Bonds on the relevant date fixed for redemption, a gross yield of 1.25% per annum calculated on a semi-annual basis

“Exchange Property”	initially comprises 689,438,782 CMD Shares, and shall include all relevant securities and other property arising out of or derived or resulting therefrom and such other property, in each case as may be deemed or required to comprise all or part of the Exchange Property, but excluding any such property as may or may be deemed to have ceased to form part of the Exchange Property
“Future Discovery”	Future Discovery Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Lead Managers”	DBS and BOCI
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	5 June 2022
“Offering Circular”	the offering circular to be issued in connection with the issue of the Bonds
“PRC”	the People’s Republic of China excluding except where the context otherwise requires, for the purpose of this announcement, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Relevant Indebtedness”	means any indebtedness issued outside the PRC which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market
“Securities Act”	the United States Securities Act of 1933, as amended
“Securities Lending Agreement”	a securities lending agreement dated 18 May 2017 entered into between the Company as lender and BOCI Financial Products Limited as borrower for the lending of up to 689,438,782 CMD Shares in aggregate
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the subscription agreement dated 18 May 2017 entered into among the Company and the Lead Managers in relation to the issue of the Bonds
“Trust Deed”	a trust deed to be entered into between the Company and the Trustee in relation to the Bonds
“Trustee”	The Hong Kong and Shanghai Banking Corporation Limited
“US\$”	United States dollars
“%”	per cent

By order of the Board
China Mengniu Dairy Company Limited
Jeffrey, Minfang Lu
Chief Executive Officer and Executive Director

Hong Kong, 18 May 2017

As at the date of this announcement, the Board comprises Mr. Jeffrey, Minfang Lu, Mr. Bai Ying and Ms. Wu Wenting as executive directors, Mr. Ma Jianping, Mr. Niu Gensheng, Mr. Tim Ørting Jørgensen and Mr. Filip Kegels as non-executive directors, Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Zhang Xiaoya and Mr. Yau Ka Chi as independent non-executive directors.