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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)

MAJOR AND CONNECTED TRANSACTION DISPOSAL OF CMD SHARES

THE SALE AND PURCHASE AGREEMENT

The Board announces that on 5 August 2017, the Company entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Company agreed to sell, and the Purchaser agreed to purchase, the Sale Shares for a consideration of HK\$41.4 million, payable in cash.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Proposed Disposal is more than 25% but less than 75%, the Proposed Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, the Purchaser holds approximately 31.42% of the issued share capital of the Company. Therefore, the Purchaser is a connected person of the Company under the Listing Rules. As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Proposed Disposal is more than 25%, the Proposed Disposal also constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

* For identification purpose only

GENERAL

The Independent Board Committee comprising all the independent non-executive Directors (except for Mr. Julian Juul Wolhardt whose interest in the Proposed Disposal is different to that of other Directors given his previous position as a director of Success Dairy II Limited at the time the Company acquired 965,465,750 CMD Shares at HK\$1.94 per CMD Share from Success Dairy II Limited, accordingly, he has abstained from voting on the Board resolutions approving the Sale and Purchase Agreement and the Proposed Disposal) has been established to consider the terms of the Proposed Disposal and to advise and make recommendations to the Independent Shareholders as to how to vote at the EGM on the resolution in relation to the Proposed Disposal. No member of the Independent Board Committee has any material interest in the Proposed Disposal.

Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Sale and Purchase Agreement are fair and reasonable, and whether the Proposed Disposal is conducted on normal commercial terms and is in the interests of the Company and its Shareholders as a whole.

The EGM will be convened by the Company during which an ordinary resolution will be proposed to the Independent Shareholders to approve the Sale and Purchase Agreement and the Proposed Disposal. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, other than the Purchaser and its associates, no other Shareholder will be required to abstain from voting on the resolution approving the Sale and Purchase Agreement and the Proposed Disposal at the EGM.

A circular containing, among other things, (i) further details of the Sale and Purchase Agreement and the Proposed Disposal, (ii) a letter from the Independent Board Committee containing its opinion and recommendations to the Independent Shareholders in respect of the Proposed Disposal, (iii) a letter of advice from Somerley, the independent financial adviser, to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Disposal, and (iv) a notice to convene the EGM, is expected to be dispatched to the Shareholders on or before 13 August 2017.

As completion of the Proposed Disposal is subject to the approval of the Independent Shareholders of the Sale and Purchase Agreement and the Proposed Disposal at the EGM, the Proposed Disposal may or may not proceed. The Shareholders and/or potential investors should exercise caution when dealing in the securities of the Company. If in doubt, investors are recommended to consult their professional adviser(s).

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The principal terms of the Sale and Purchase Agreement are summarized as follows:

Date

5 August 2017

Parties

The Company (as seller)

The Purchaser (as purchaser)

Subject Matter

Pursuant to the Sale and Purchase Agreement, the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, representing approximately 0.49% of the issued share capital of CMD as of the date of this announcement. Please refer to the section headed “INFORMATION ON CMD, THE COMPANY AND THE PURCHASER – CMD” in this announcement for further details of CMD.

Consideration

The Consideration for the sale of the Sale Shares is HK\$41.4 million, payable in cash. The Consideration represents HK\$1.38 per CMD Share, being the weighted average price of CMD Shares on the five trading days immediately prior to the date of the Sale and Purchase Agreement.

The Consideration was determined on the basis of normal commercial terms and after arm’s length negotiation between the Company and the Purchaser.

Condition Precedent

Completion is conditional the satisfaction (or waiver, if applicable) of the following conditions precedents:

- (a) the approval of the Independent Shareholders of the Sale and Purchase Agreement and the Proposed Disposal at the EGM;
- (b) the Proposed Disposal not being prohibited by or in violation of, and not subjecting any party of the Sale and Purchase Agreement to any penalty or liability under, applicable laws and regulations, and no person having instituted or threatened to institute any action or investigation to restrain, prohibit or otherwise challenge the Proposed Disposal or having threatened to take any action as a result of or in anticipation of the implementation of the Proposed Disposal;
- (c) the Company’s warranties and the Purchaser’s warranties set forth in the Sale and Purchase Agreement remaining true and accurate and not misleading in any material respect as of the date of the Sale and Purchase Agreement and at Completion; and

- (d) where applicable, the full and effective release of all charges, mortgages, pledges, liens, encumbrances and other security of whatever nature over or in respect of the Sale Shares.

If any of the conditions precedent set forth above has not been satisfied or waived on or before 11:59 p.m. on the Long Stop Date, the Sale and Purchase Agreement shall terminate automatically with immediate effect. The condition precedent set forth in (a) above may not be waived in any event by the Company or the Purchaser. The conditions precedent set forth in (b) to (d) above may be waived, in whole or in part and conditionally or unconditionally, by the Purchaser at its sole discretion.

Completion

Completion shall take place on the Completion Date, being the date on which the Independent Shareholders approves the Sale and Purchase Agreement and the Proposed Disposal at the EGM (such date not being later than the Long Stop Date), or such other date as may be agreed in writing between the Company and the Purchaser.

Termination

If Completion does not take place on the Completion Date due to any failure of a party to the Sale and Purchase Agreement to comply with any of its obligations with respect to Completion as set forth in the Sale and Purchase Agreement, the non-defaulting party shall have the discretion to terminate the Sale and Purchase Agreement.

INFORMATION ON CMD, THE COMPANY AND THE PURCHASER

CMD

CMD is a company incorporated in the Cayman Islands with limited liability, and CMD Shares have been listed on the Main Board of the Stock Exchange since 2010. CMD Group is the largest dairy farming company in terms of herd size as well as the largest raw milk producer in China. It is headquartered in China's eastern province of Anhui, and its primary business is raising dairy cows and selling raw milk to branded dairy companies for processing into consumer dairy products. As of 31 December 2016, CMD Group operated 26 farms in China with 229,200 dairy cows in total.

The table below sets forth a summary of certain audited consolidated financial information of CMD Group for the years ended 31 December 2015 and 31 December 2016 extracted from the 2016 annual report of CMD Group:

	The year ended 31 December 2015 (RMB'000)	The year ended 31 December 2016 (RMB'000)
Revenue	4,826,341	4,862,311
Profit (Loss) before taxation	355,381	(784,991)
Profit (Loss) for the year attributable to the owners of CMD	321,296	(742,103)

The Company

The Company is a company incorporated in the Cayman Islands with limited liability with its Shares listed on the Main Board of the Stock Exchange since 2004. The Group is one of the leading dairy product manufacturers in the PRC, principally engaged in manufacturing and distribution of quality dairy products including liquid milk, ice cream, milk formula and other products.

The Purchaser

The Purchaser is a limited liability company incorporated under the laws of Hong Kong and an investment holding company.

FINANCIAL IMPACT OF THE PROPOSED DISPOSAL ON THE GROUP AND THE PROPOSED USE OF PROCEEDS

It is estimated that as a result of the Proposed Disposal, the Group will record a one-off unaudited loss of approximately RMB17 million. The actual gain or loss as a result of the Proposed Disposal to be recorded by the Group is subject to audit and will be reassessed after Completion.

The Group intends to use the proceeds from the Proposed Disposal to repay certain of its existing indebtedness.

REASONS FOR AND BENEFITS OF THE PROPOSED DISPOSAL

The Purchaser is an investment holding company and is indirectly held by COFCO Corporation (together with its subsidiaries, “**COFCO**”), Danone SA (together with its subsidiaries, “**Danone**”) and Arla Foods amba (together with its subsidiaries, “**Arla Foods**”) as of the date of this announcement. The Directors (other than the independent non-executive Directors, who will be advised by Somerley, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, and whose views will be set out in the circular to be dispatched to the Shareholders) are of the view that:

- (a) the Proposed Disposal would further optimise the shareholding structure of CMD and enhance the corporate governance of CMD;
- (b) the Proposed Disposal would also promote cooperation between CMD on the one hand, and COFCO, Danone and Arla Foods on the other, in areas including technology development and operational management, thereby further improving the technology standard and operational efficiency of CMD; and
- (c) in light of the above, the benefits of the Proposed Disposal in enhancing the shareholder value of CMD and the Group would outweigh the one-off unaudited loss incurred by the Group as a result of the Proposed Disposal.

The Directors (other than the independent non-executive Directors, who will be advised by Somerley, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, and whose views will be set out in the circular to be dispatched to the Shareholders) consider that the Proposed Disposal is conducted on normal commercial terms and the terms of the Sale and Purchase Agreement are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

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DEFINITIONS

“associate(s)”	has the same meaning ascribed thereto under the Listing Rules
“Board”	the board of directors of the Company
“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 Group”	CMD and its subsidiaries
“CMD Shares”	ordinary share(s) of par value HK\$0.10 each in the share capital of CMD
“Company”	China Mengniu Dairy Company Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 2319)
“Completion”	the completion of the Proposed Disposal
“Completion Date”	the date on which Completion takes place, being the date on which the Independent Shareholders approves the Sale and Purchase Agreement and the Proposed Disposal at the EGM (such date not being later than the Long Stop Date), or such other date as may be agreed in writing between the Company and the Purchaser
“connected person”	has the meaning ascribed to it in the Listing Rules

“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve the Sale and Purchase Agreement and the Proposed Disposal
“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
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors (except for Mr. Julian Juul Wolhardt), namely Mr. Jiao Shuge (alias Jiao Zhen), Mr. Zhang Xiaoya and Mr. Yau Ka Chi
“Independent Shareholder(s)”	Shareholders other than the Purchaser and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	31 December 2017, or such other date as the Company and the Purchaser may agree in writing
“PRC”	the People’s Republic of China
“Proposed Disposal”	the proposed sale of the Sale Shares by the Company to the Purchaser pursuant to the Sale and Purchase Agreement
“Purchaser”	COFCO Dairy Investments Limited, a limited liability company incorporated under the laws of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the conditional sale and purchase agreement entered into between the Company and the Purchaser dated 5 August 2017 in respect of the sale of the Sale Shares
“Sale Shares”	30,000,000 CMD Shares beneficially owned by the Company as of the date of the Sale and Purchase Agreement
“Share(s)”	the ordinary share(s) of the Company, being the share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares

“Somerley”

Somerley Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Proposed Disposal. Somerley is a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

By order of the Board

China Mengniu Dairy Company Limited

Jeffrey, Minfang Lu

Chief Executive Officer and Executive Director

Hong Kong, 6 August 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.