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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)

CONNECTED TRANSACTION DISPOSAL OF 48.66% EQUITY INTEREST IN INNER MONGOLIA AIYANGNIU TECHNOLOGY LIMITED*

DISPOSAL OF 48.66% EQUITY INTEREST IN THE TARGET COMPANY

On March 15, 2022, the Sellers, the Purchaser and the Target Company entered into the Equity Transfer Agreement, pursuant to which the Sellers agreed to sell and the Purchaser agreed to purchase a total of 75.00% equity interest in the Target Company for a total consideration of RMB287,774,900. Pursuant to the Equity Transfer Agreement, Inner Mongolia Mengniu (a subsidiary of the Company) and COFCO Trust Company Limited agreed to dispose of 48.66% and 11.79% equity interest in the Target Company for a consideration of RMB186,711,100 and RMB45,221,700 respectively.

Upon Completion, Inner Mongolia Mengniu's equity interest in the Target Company will decrease from 73.66% to 25.00% and the Target Company will cease to be a subsidiary of the Company. The remaining 75.00% equity interest in the Target Company will be owned by the Purchaser.

LISTING RULES IMPLICATIONS

As at the date of this announcement, COFCO Corporation is deemed to be interested in 23.15% of the total issued share capital of the Company and is a substantial shareholder of the Company and thus a connected person of the Company under Rule 14A.07(1) of the Listing Rules. COFCO Trust Company Limited is a subsidiary of COFCO Corporation and thus a connected person of the Company under Rule 14A.07(4) of the Listing Rules.

Inner Mongolia Mengniu (a subsidiary of the Company) and COFCO Trust Company Limited (a connected person of the Company) entered into the Equity Transfer Agreement with the Purchaser in relation to the disposal of their equity interest in the same company (the Target Company) to the same party (the Purchaser). Completions of the sales and purchases of the equity interest in the Target Company for all the Sellers are inter-conditional in nature and expected to take place at the same time. As such, the Purchaser may be regarded as a “deemed connected person” of the Company in respect of the Equity Transfer Agreement pursuant to Rule 14A.20 of the Listing Rules. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the largest applicable percentage ratio in respect of the aggregate of the disposals of equity interest in the Target Company by Inner Mongolia Mengniu and by COFCO Trust contemplated under the Equity Transfer Agreement is more than 0.1% but less than 5%, the connected transaction under the Equity Transfer Agreement is subject to the reporting, announcement and annual review requirements but is exempt from the independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

As completion of the transactions contemplated under the Equity Transfer Agreement is subject to the fulfillment of certain conditions precedent, the Disposal may or may not proceed to completion. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

DISPOSAL OF 48.66% EQUITY INTEREST IN THE TARGET COMPANY

On March 15, 2022, the Sellers, the Purchaser and the Target Company entered into the Equity Transfer Agreement, pursuant to which the Sellers agreed to sell and the Purchaser agreed to purchase a total of 75.00% equity interest in the Target Company for a total consideration of RMB287,774,900. Pursuant to the Equity Transfer Agreement, Inner Mongolia Mengniu (a subsidiary of the Company) and COFCO Trust Company Limited agreed to dispose of 48.66% and 11.79% equity interest in the Target Company for a consideration of RMB186,711,100 and RMB45,221,700 respectively.

Upon Completion, Inner Mongolia Mengniu’s equity interest in the Target Company will decrease from 73.66% to 25.00% and the Target Company will cease to be a subsidiary of the Company. The remaining 75.00% equity interest in the Target Company will be owned by the Purchaser.

THE EQUITY TRANSFER AGREEMENT

Key terms of the Equity Transfer Agreement are summarized as below:

Date	March 15, 2022
Parties	Sellers (as the sellers) Purchaser (as the purchaser) Target Company (as the target company)
Subject Matter	Sale of an aggregate of 75.00% equity interests in the Target Company by the Sellers to the Purchaser for a total consideration of RMB287,774,900, details of which are set out below:

Seller	Selling equity interest in the Target Company	Consideration (RMB)
Inner Mongolia Mengniu 天津眾牧諮詢服務中心 (有限合夥)	48.66%	186,711,100
COFCO Trust Company Limited 內蒙古晟蒙創業投資基金中心(有限合夥)	12.77%	48,990,400
	11.79%	45,221,700
	1.78%	6,851,700
Total	75.00%	287,774,900

Consideration and settlement The total consideration payable by the Purchaser is RMB287,774,900 and are payable in cash in two tranches in the following manner:

- (i) RMB258,997,410, being 90% of the total consideration, within five (5) PRC Business Days upon the fulfillment or waiver of the relevant conditions precedent; and
- (ii) RMB28,777,490, being the remaining 10% of the total consideration, within five (5) PRC Business Days upon the fulfillment or waiver of the relevant conditions precedent.

Please refer to the sub-section headed “Conditions Precedent to Completion” for the details of the conditions precedent for each tranche.

Basis of Consideration The consideration was determined after arm’s length negotiations between the Purchaser and the Sellers after taking into account: (1) the business prospect of the Target Company; and (ii) the appraised fair value of the entire equity interest in the Target Company of RMB388,320,323 as at December 31, 2021. The valuation was carried out by an independent valuer using the market approach.

Conditions Precedent to Completion Completion is subject to customary conditions precedent as stipulated in the Equity Transfer Agreement.

In respect of the first tranche payment, the conditions precedent include but are not limited to:

- (i) all approvals, consents and filings necessary for the transactions under the Equity Transfer Agreement have been obtained by the Parties;
- (ii) the Equity Transfer Agreement and the transactions thereunder being approved by the independent shareholders of Modern Dairy;
- (iii) all transaction documents being duly signed by the Parties; and
- (iv) a new memorandum and articles of association being duly adopted by the Target Company.

In respect of the second tranche payment: the updated Value-added Telecommunications Business License (增值電信業務經營許可證) of the Target Company being approved by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部).

Completion Completion will take place on the day on which the Purchaser pays the first tranche payment.

Upon Completion, the Target Company will be owned as to 75.00% by the Purchaser and 25.00% by Inner Mongolia Mengniu.

Termination

The Equity Transfer Agreement will be terminated in certain circumstances as set out in the Equity Transfer Agreement, including but not limited to:

- (i) if the Target Company is unable to obtain the updated Value-added Telecommunications Business License (增值電信業務經營許可證) within 5 months (or such longer period as agreed by the Parties) after the business registration records of the Target Company has been updated to reflect the Completion and filed with the competent governmental body; and
- (ii) if the Purchaser fails to pay the second tranche payment within fifteen (15) PRC Business Days after its due date.

In the event of a termination, the Purchaser shall cooperate with the Target Company and each Seller to restore the shareholding, corporate governance structure of the Target Company to the structure as of the date of signing the Equity Transfer Agreement and update the Value-added Telecommunications Business License (增值電信業務經營許可證) as applicable. The Sellers shall refund the first tranche payment in one lump sum to the bank account designated by the Purchaser within such period as specified in the Equity Transfer Agreement as a result of the restoration.

INFORMATION ON THE TARGET COMPANY

The Target Company was established in the PRC in 2015 and is principally engaged in the operation of animal husbandry e-commerce platform, animal husbandry service cloud platform, animal husbandry service business, sale of feedstuffs, additives and veterinary medicine, and trade consulting of agricultural and livestock products in the PRC. As at the date of this announcement, Inner Mongolia Mengniu owns 73.66% of the equity interests in the Target Company.

Set out below is a summary of the consolidated financial information of the Target Company for the two years ended December 31, 2020 and December 31, 2021, as extracted from the consolidated financial statements of the Target Company, prepared in accordance with the generally accepted accounting principles of the PRC:

	For the year ended	
	December 31, 2021	December 31, 2020
	<i>(RMB)</i>	<i>(RMB)</i>
	(unaudited)	(unaudited)
Consolidated net profit (before taxation)	23,069,746.88	13,844,721.94
Consolidated net profit (after taxation)	17,217,255.65	10,293,014.33

The unaudited consolidated net asset value of the Target Company as prepared on the above basis as at December 31, 2021 was RMB38,633,441.74.

SHAREHOLDING STRUCTURE OF THE TARGET COMPANY

The shareholding structure of the Target Company as at the date of this announcement and immediately after Completion is set out below:

Name of shareholders	As at the date of this announcement	Immediately after Completion
	<i>Equity Interest held in the Target Company (%)</i>	<i>Equity Interest held in the Target Company (%)</i>
The Purchaser	—	75.00
Inner Mongolia Mengniu	73.66	25.00
天津眾牧諮詢服務中心(有限合夥)	12.77	—
COFCO Trust Company Limited	11.79	—
內蒙古晟蒙創業投資基金中心(有限合夥)	1.78	—
Total	<u>100.00</u>	<u>100.00</u>

FINANCIAL EFFECT OF THE DISPOSAL AND USE OF PROCEEDS

As at December 31, 2021, the 48.66% equity interest in the Target Company to be disposed of by Inner Mongolia Mengniu carried a book value of approximately RMB18.8 million (unaudited). Pursuant to the valuation carried out by an independent valuer using the market approach, the appraised fair value of the entire equity interest in the Target Company is RMB388,320,323 as at December 31, 2021.

Upon Completion, the Company is expected to record in its income statement a gain of approximately RMB47 million as a result of the Disposal, which is calculated based on the difference between the consideration to be received by Inner Mongolia Mengniu and (i) 48.66% of the unaudited net asset value of the Target Company as at December 31, 2021, (ii) offset due to the Company's shareholding in Modern Dairy and (iii) taxes payable by Inner Mongolia Mengniu in relation to the Disposal. The actual amount of gain or loss as a result of the Disposal to be recorded by the Company will be subject to the review and final audit by the auditors of the Company.

The gross proceeds from the Disposal will be approximately RMB187 million and are intended to be used for working capital and general corporate purposes of the Group.

REASONS FOR AND BENEFITS OF ENTERING INTO THE EQUITY TRANSFER AGREEMENT

The Target Company operates the Aiyangniu Platform, an online procurement platform of farm supplies, which integrates resources from more than 1,000 suppliers for the leading market players in the dairy farming industry in the PRC. Modern Dairy Group is a leading dairy farm operator and fresh raw milk producer in the PRC. The Group believes the Completion can create business synergies between the Aiyangniu Platform and the dairy farms operated by the Modern Dairy Group and further ensure the quality and safety of farm supplies supplied by the Target Company which are essential to the production of high quality raw milk. In addition, the Group believes that such business synergies are expected to, through centralized procurement, enhance the efficiency of those dairy farms from which the Group procures high quality raw milk. Furthermore, upon Completion, the Target Company will become a joint venture of the Group and the Modern Dairy Group, which is expected to further enhance the strategic cooperation between the Group and the Modern Dairy Group.

The Directors (including the independent non-executive Directors but excluding Mr. Jeffrey, Minfang Lu, Ms. Wang Yan, Mr. Zhang Ping, Mr. Chen Lang and Mr. Wang Xi) consider that the terms of the Equity Transfer Agreement and the transactions thereunder, although not in the ordinary and usual course of business of the Group, are fair, reasonable, on normal commercial terms and in the interests of the Company and its shareholders as a whole.

Each of Mr. Jeffrey, Minfang Lu and Mr. Zhang Ping is an executive director of the Company and a non-executive director of Modern Dairy. Ms. Wang Yan, has previously served various roles at the human resources department of COFCO Corporation. Each of Mr. Chen Lang and Mr. Wang Xi is a director of certain subsidiaries of COFCO Corporation. As such, Mr. Jeffrey, Minfang Lu, Ms. Wang Yan, Mr. Zhang Ping, Mr. Chen Lang and Mr. Wang Xi may be considered to have material interests in the transactions under the Equity Transfer Agreement. Therefore, each of Mr. Jeffrey, Minfang Lu, Ms. Wang Yan, Mr. Zhang Ping, Mr. Chen Lang and Mr. Wang Xi has abstained from voting on the relevant board resolution approving the Equity Transfer Agreement.

INFORMATION ON THE GROUP, THE SELLERS AND THE PURCHASER

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.

The Sellers are, collectively, Inner Mongolia Mengniu, 天津眾牧諮詢服務中心(有限合夥), COFCO Trust Company Limited and 內蒙古晟蒙創業投資基金中心(有限合夥).

- (i) **Inner Mongolia Mengniu** is an indirect non-wholly owned subsidiary of the Company and principally engaged in manufacturing and sale of dairy products.
- (ii) **COFCO Trust Company Limited** is a non-bank financial institution established in the PRC, principally engaged in trust management, investment fund business, project financing, corporate financial management and financial consulting business in the PRC. Its beneficial owner is COFCO Corporation (a substantial shareholder of the Company) whose ultimate beneficial owner is the State Council of the PRC. Each of COFCO Trust Company Limited and COFCO Corporation is a connected person of the Company.
- (iii) 天津眾牧諮詢服務中心(有限合夥) is a limited liability partnership established in the PRC, whose principal business is economic and trade consulting, education consulting, public relations services, technology transfer, technical services, exhibitions and conference services. Its ultimate beneficial owners are Mr. Liu Xiaojiang (劉曉江) and Ms. Li Liying (李麗英).
- (iv) 內蒙古晟蒙創業投資基金中心(有限合夥) is a limited liability partnership established in the PRC, whose principal business is investment management, investment consulting, and venture capital. Its general partner is 武漢晟道創業投資基金管理有限公司, the ultimate single largest shareholder of which is Mr. Ai Luming (艾路明), an Independent Third Party who controls less than 30% of the voting rights in the general partner.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of the Sellers (other than Inner Mongolia Mengniu and COFCO Trust Company Limited) and their respective ultimate beneficial owners is an Independent Third Party.

The Purchaser is a sino-foreign investment enterprise established in the PRC and an indirect non-wholly owned subsidiary of Modern Dairy. Modern Dairy is an investment holding company with limited liability, which, along with its subsidiaries, is principally engaged in dairy farming operations, production and sale of raw milk, and development of liquid milk products. Modern Dairy Group is a leading dairy farm operator and fresh raw milk producer in the PRC. Modern Dairy is considered a material associate and a strategic partner of the Group.

LISTING RULES IMPLICATIONS

As at the date of this announcement, COFCO Corporation is deemed to be interested in 23.15% of the total issued share capital of the Company and is a substantial shareholder of the Company and thus a connected person of the Company under Rule 14A.07(1) of the Listing Rules. COFCO Trust Company Limited is a subsidiary of COFCO Corporation and thus a connected person of the Company under Rule 14A.07(4) of the Listing Rules.

Inner Mongolia Mengniu (a subsidiary of the Company) and COFCO Trust Company Limited (a connected person of the Company) entered into the Equity Transfer Agreement with the Purchaser in relation to the disposal of their equity interest in the same company (the Target Company) to the same party (the Purchaser). Completions of the sales and purchases of the equity interest in the Target Company for all the Sellers are inter-conditional in nature and expected to take place at the same time. As such, the Purchaser may be regarded as a "deemed connected person" of the Company in respect of the Equity Transfer Agreement pursuant to Rule 14A.20 of the Listing Rules. Accordingly, the Disposal constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the largest applicable percentage ratio in respect of the aggregate of the disposals of equity interest in the Target Company by Inner Mongolia Mengniu and by COFCO Trust contemplated under the Equity Transfer Agreement is more than 0.1% but less than 5%, the connected transaction under the Equity Transfer Agreement is subject to the reporting, announcement and annual review requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

As completion of the transactions contemplated under the Equity Transfer Agreement is subject to the fulfillment of certain conditions precedent, the Disposal may or may not proceed to completion. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

DEFINITIONS

“Aiyangniu Platform”	the Aiyangniu online procurement platform of farm supplies for the dairy farming industry operated by the Target Company
“associate(s)”, “connected person(s)”, “percentage ratio(s)”, “subsidiary(ies)”, “substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“COFCO Corporation”	中糧集團有限公司 (COFCO Corporation*), a wholly state-owned company incorporated in the PRC
“COFCO Trust Company Limited”	中糧信託有限責任公司 (COFCO Trust Company Limited*), a company incorporated in the PRC with limited liability and a subsidiary of COFCO Corporation
“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 transfer of 75.00% equity interests in Target Company pursuant to the terms of the Equity Transfer Agreement
“Director(s)”	the director(s) of the Company
“Disposal”	disposal of 48.66% equity interest in the Target Company by Inner Mongolia Mengniu under the Equity Transfer Agreement for a consideration of RMB186,711,100
“Equity Transfer Agreement”	the equity transfer agreement entered into among the Purchaser, the Sellers and the Target Company dated March 15, 2022, pursuant to which Inner Mongolia Mengniu, 天津眾牧諮詢服務中心(有限合夥), COFCO Trust Company Limited and 內蒙古晟蒙創業投資基金中心(有限合夥) agreed to sell, and the Purchaser agreed to acquire, 48.66%, 12.77%, 11.79% and 1.78% equity interest in the Target Company, respectively
“Group”	the Company and its subsidiaries

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	third party independent of and not connected with the Company and its connected persons (as defined in the Listing Rules)
“Inner Mongolia Mengniu”	內蒙古蒙牛乳業(集團)股份有限公司 (Inner Mongolia Mengniu Dairy (Group) Co., Ltd*), a 99.99% owned subsidiary of the Company and a joint stock company incorporated under the laws of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Modern Dairy”	China Modern Dairy Holdings Ltd., 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: 1117)
“Modern Dairy Group”	Modern Dairy and its subsidiaries
“Parties”	collectively, the Sellers, the Purchaser and the Target Company
“PRC or China”	the People’s Republic of China, which for the purpose of this announcement, shall not include Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“PRC Business Day(s)”	a day which is not a Saturday, Sunday nor a day on which banks in the PRC are required or authorized by the relevant laws to suspend business
“Purchaser”	現代牧業(集團)有限公司 (Modern Farming (Group) Co., Ltd.*), a sino-foreign investment enterprise established in the PRC and an indirect non-wholly owned subsidiary of Modern Dairy
“RMB”	Renminbi, the lawful currency of the PRC
“Sellers”	collectively, Inner Mongolia Mengniu, 天津眾牧諮詢服務中心(有限合夥) (Tianjin Zhongmu Consulting L.P.*), COFCO Trust Company Limited and 內蒙古晟蒙創業投資基金中心(有限合夥) (Inner Mongolia Shengmeng Investment L.P.*)

“Target Company” 內蒙古愛養牛科技有限公司 (Inner Mongolia Aiyangniu Technology Limited*), a limited liability company incorporated under the laws of the PRC, a non-wholly owned subsidiary of the Company as of the date of this announcement

“%” per cent

By order of the Board
China Mengniu Dairy Company Limited
中國蒙牛乳業有限公司*
Kwok Wai Cheong, Chris
Company Secretary

Hong Kong, March 15, 2022

As at the date of this announcement, the Board comprises: Mr. Jeffrey, Minfang Lu, Ms. Wang Yan and Mr. Zhang Ping as executive directors; Mr. Chen Lang, Mr. Wang Xi and Mr. Simon Dominic Stevens as non-executive directors; and Mr. Yih Dieter (alias YIH Lai Tak, Dieter), Mr. Li Michael Hankin and Mr. Ge Jun as independent non-executive directors.

* *For identification purposes only*