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Unless otherwise defined herein, terms defined in the prospectus dated 1 June 2004 (the “Prospectus”) issued by China Mengniu Dairy Company Limited (the “Company”) shall have the same meanings in this announcement.



## China Mengniu Dairy Company Limited

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 2319)

### CONVERSION OF THE CONVERTIBLE INSTRUMENTS AND PLACING OF EXISTING AND CONVERTED SHARES BY THE FINANCIAL INVESTORS

The Company has been informed by MS Dairy Holdings (“**MS Dairy**”), CDH China Fund, L.P. (“**CDH**”), and Actis China Investment Company Limited (“**Actis**”) (together, the “**Financial Investors**”), shareholders of the Company, that they are exercising their right to convert 30% of the outstanding principal of the Convertible Instruments. Subsequent to the conversion MS Dairy, CDH and Actis will be allotted respectively, 73,756,909, 23,403,107 and 13,364,925 Shares in the Company.

Each of the Financial Investors have entered into a Share Placing Agreement with Morgan Stanley & Co International Limited (the “**Placing Agent**”) pursuant to which the Placing Agent will purchase or procure purchasers to acquire, and the Financial Investors will sell in aggregate, 168,238,371 Shares (comprising of Existing Shares and Converted Shares, as defined below) to investors at the placing price of HK\$6.06 per Placing Share. The Placing Shares represent approximately 12.3% of the issued share capital of the Company on an “as-if converted” basis (assuming 100% of the Convertible Instruments have been converted). The Financial Investors will continue to hold the remainder 70% of the Convertible Instruments issued by the Company, which could be converted into 172,099,455, 54,607,251 and 31,184,826 Shares representing approximately 12.6%, 4.0% and 2.3% of the enlarged issued share capital of the Company on an “as-if converted” basis.

At the request of the Company, trading of the Shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) was suspended from 9:30 a.m. on 17 December 2004. Application has been made to the Stock Exchange for resumption of the trading of the Shares with effect from 9:30 a.m. on 20 December, 2004.

## CONVERSION

The Financial Investors are holders of convertible instruments issued by the Company on 14 May, 2004 in the principal amount of US\$35,233,827 (the “**Convertible Instruments**”). Pursuant to the terms of the Convertible Instruments, each of the Financial Investors are entitled to convert 30% of the outstanding principal amount at any time after the date falling six months after the listing of the Shares of the Company, 10 December, 2004. A conversion notice converting 30% of the

outstanding principal amount of the Convertible Instruments has been issued on 16 December 2004 by each of the Financial Investors to the Company. Subsequent to the conversion, MS Dairy, CDH and Actis is allotted respectively, 73,756,909, 23,403,107 and 13,364,925 Shares (the “**Converted Shares**”) in the Company, representing approximately 5.4%, 1.7% and 1.0% of the enlarged issued share capital of the Company consisting of 1,368,416,473 Shares on an “as-if converted” basis.

Unless otherwise specified, the percentages in relation to share interest in the Company shown throughout this announcement have been calculated based on the assumption that the Convertible Instruments have been 100% converted.

## **PLACING**

The Company has been informed by the Financial Investors that respectively, a share placing agreement dated 16 December 2004 (the “**Share Placing Agreement**”) has been entered into with the Placing Agent on the terms summarised below. For each respective Financial Investor, save for the number of Shares placed, the terms of each of their Share Placing Agreement are identical.

## **PARTIES**

MS Dairy, CDH and Actis have each entered into a separate Share Placing Agreement with Morgan Stanley & Co International Limited.

MS Dairy, CDH and Actis are shareholders of the Company and directly holds respectively, 38,512,198, 12,221,678 and 6,979,554 shares of the Company (the “**Existing Shares**”), representing approximately 2.8%, 0.9%, 0.5% of the enlarged issued share capital of the Company consisting of 1,368,416,473 Shares on an “as-if converted” basis.

## **NUMBER OF PLACING SHARES**

MS Dairy: 112,269,107 Shares consisting of 38,512,198 Existing Shares and 73,756,909 Converted Shares;

CDH: 35,624,785 Shares consisting of 12,221,678 Existing Shares and 23,403,107 Converted Shares; and

Actis: 20,344,479 Shares consisting of 6,979,554 Existing Shares and 13,364,925 Converted Shares,

together in aggregate (the “**Placing Shares**”), representing approximately 12.3% of the enlarged share capital of the Company on an “as-if converted” basis.

## **PLACING PRICE**

HK\$6.06 per Placing Share, representing a discount of approximately 4.6% to the closing price of HK\$6.35 per Share as quoted on the Stock Exchange on 16 December 2004 and a discount of approximately 0.9% to the average closing price for the month commencing 17 November 2004 and ending 16, December 2004 (both dates inclusive).

## **PLACEES**

The Placing Agent has undertaken to each of the Financial Investors it has to use its best endeavours to ensure that the placees of the placing are investors who are independent third parties who are not and are independent from connected persons of the Company (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited).

## **CONDITIONS OF THE PLACING**

The placing of the Shares is conditional upon, inter alia, there having been no material and adverse breach of any of the representations, warranties or undertakings by each of the Financial Investors referred to in each respective Share Placing Agreement and no occurrence of an event of force majeure.

## **LOCK-UP**

Each of MS Dairy, CDH and Actis has undertaken to the Placing Agent that during the period ending on the 90th day from the date of the Share Placing Agreement, in relation to any Shares issued and allotted pursuant to any variation of the rights of the Convertible Instruments (the “**Newly Allotted Shares**”), it will not directly or indirectly transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) any such Newly Allotted Shares owned by it or any interests therein, without the prior written consent of the Placing Agent.

## **COMPLETION OF THE PLACING**

Completion of the placing of the Shares is expected to take place on 22 December 2004, or such other date as may be agreed by each of the Financial Investors and the Placing Agent.

After the Conversion and prior to the completion of the Placing, MS Dairy, CDH and Actis has respectively, 112,269,107, 35,624,785 and 20,344,479 Shares in the Company, representing 10.1%, 3.2% and 1.8% in the current issued share capital of the Company consisting of 1,110,524,941 Shares (including the Converted Shares issued pursuant to the conversion of 30% of the Convertible Instruments). Yinniu Milk Industry Limited (“Yinniu”) (see Note 1 below), Jinniu Milk Industry Limited (“Jinniu”) (see Note 2 below) and Mr Niu Gensheng (see Note 3 below) respectively holds 335,937,391, 158,344,007 and 45,505,172 Shares, representing 30.3%, 14.3% and 4.1% in the current issued share capital of the Company consisting of 1,110,524,941 Shares. The general public holds 402,500,000 Shares, representing 36.2% in the current issued share capital of the Company.

On completion of the Placing, Jinniu, Yinniu and Mr Niu Gensheng’s shareholding interests remain the same as set out above. Each of the Financial Investors will only hold the remaining 70% of the Convertible Instruments in the Company. The general public will hold 570,738,371 Shares, representing 51.4% in the current issued share capital of the Company consisting of 1,110,524,941 Shares.

Pursuant to the terms of the remaining 70% of the Convertible Instruments, MS Dairy, CDH and Actis have the right to convert into respectively, 172,099,455, 54,607,251 and 31,184,826 Shares representing 12.6%, 4.0% and 2.3% in the enlarged issued share capital of the Company on an “as-if converted” basis. The Financial Investors shall have the right to convert all of such remaining 70% of the outstanding principal amount plus any accrued and unpaid interest at any time after the expiry of 12 months from the date of listing of the Company’s Shares. During the six month period commencing from the expiry of 12 months from the date of listing and ending on the expiry of 18 months from the date of listing, pursuant to the lock-up arrangements contained in the underwriting agreements executed at the time of the listing of the Shares of the Company, the Financial Investors shall not dispose of or transfer more than 85% on an “as-if converted basis” of its share interests in the Company.

Assuming 100% conversion of the Convertible Instruments, the change in the shareholding structure of the Company pursuant to the Placing is set out below:

	<u>Before Placing</u>		<u>After Placing</u>	
	<b>Number of Shares assuming full conversion</b>	<b>% share capital assuming full conversion</b>	<b>Number of Shares assuming full conversion</b>	<b>% share capital assuming full conversion</b>
MS Dairy	284,368,562	20.8%	172,099,455	12.6%
CDH	90,232,036	6.6%	54,607,251	4.0%
Actis	51,529,305	3.8%	31,184,826	2.3%
Yinniu Milk Industry Limited (Note 1)	335,937,391	24.5%	335,937,391	24.5%
Jinniu Milk Industry Limited (Note 2)	158,344,007	11.6%	158,344,007	11.6%
Mr. Niu Gensheng (Note 3)	45,505,172	3.3%	45,505,172	3.3%
Public	<u>402,500,000</u>	<u>29.4%</u>	<u>570,738,371</u>	<u>41.7%</u>
<b>Total enlarged share capital assuming full conversion</b>	<b>1,368,416,473</b>	<b>100.0%</b>	<b>1,368,416,473</b>	<b>100.0%</b>

*Note 1:* Yinniu Milk Industry Limited is a limited liability company organized and existing under the laws of the British Virgin Islands and a substantial shareholder of the Company. Shares of Yinniu are held by 16 shareholders, all of whom except for one of the shareholders are members of the middle management and business associates of Inner Mongolia Mengniu Milk Industry (Group) Co., Ltd (“Mengniu”), a foreign investment joint stock limited company incorporated in the People’s Republic of China and the principal operating subsidiary of the Company and its subsidiaries.

*Note 2:* Jinniu Milk Industry Limited is a limited liability company organized and existing under the laws of the British Virgin Islands and a substantial shareholder of the Company. Shares of Jinniu are held by 15 shareholders, all of whom are members of senior management of Mengniu.

*Note 3:* Mr. Niu Gensheng is the Chairman of the board of directors and Chief Executive Officer of the Company.

## GENERAL INFORMATION

At the request of the Company, trading of the Shares on the Main Board of the Stock Exchange was suspended from 9:30 a.m. on 17 December 2004. Application has been made to the Stock Exchange for resumption of the trading of the Shares with effect from 9:30 a.m. on 20 December 2004.

By Order of the Board  
**Wong Hoi Yan, Audrey**  
Company Secretary

Hong Kong, 20 December 2004

*As at the date of this announcement, the executive directors are Mr Niu Gensheng, Ms Lu Jun, Mr Sun Yubin and Mr Yang Wenjun. The non-executive directors are Mr Jiao Shuge (alias Jiao Zhen), Ms Jin Yujuan, Lily and Mr Liu Haifeng, David. The independent non-executive directors are Mr. Li Jianxin, Mr. Wang Huaibao, and Mr. Zhang Julin.*

*Please also refer to the published version of this announcement in the (South China Morning Post)*