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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 17.78 % EQUITY INTEREST IN SAIKEXING**

Inner Mongolia Mengniu, a subsidiary owned as to 93.29% by the Company, has entered into the Equity Transfer Agreement with Mr. Yang on 8 November 2012, pursuant to which, Inner Mongolia Mengniu has agreed to sell, and Mr. Yang has agreed to purchase, the Equity Interest for a cash consideration of RMB101,760,000 (equivalent to approximately HK\$125,205,000).

Since Mr. Yang is a connected person under Rule 14A.11(2) of the Listing Rules, the entering into of the Equity Transfer Agreement with Mr. Yang constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the relevant percentage ratios, calculated pursuant to Rule 14.07 of the Listing Rules, exceed 0.1% but are less than 5%, the entering into of the Equity Transfer Agreement by Inner Mongolia Mengniu is subject to the announcement and reporting requirements but is exempt from the independent shareholders' approval requirement under Rule 14A.32 of the Listing Rules.

Inner Mongolia Mengniu has on 8 November 2012, entered into the Equity Transfer Agreement with Mr. Yang, pursuant to which, Inner Mongolia Mengniu has agreed to sell, and Mr. Yang has agreed to purchase, the Equity Interest for a cash consideration of RMB101,760,000 (equivalent to approximately HK\$125,205,000).

**The Equity Transfer Agreement**

The principal terms of the Equity Transfer Agreement are summarized as follows:

Date : 8 November 2012

Parties : Inner Mongolia Mengniu, a 93.29% owned subsidiary of

	the Company, as vendor
	Mr. Yang as purchaser
Assets to be disposed of	: 32,000,000 ordinary shares in Saikexing, representing approximately 17.78% equity interest in Saikexing
Consideration	: RMB101,760,000 (equivalent to approximately HK\$125,205,000)
Payment terms	: The consideration will be paid in cash.
	RMB50,880,000 (equivalent to approximately HK\$62,602,000) shall be paid within 30 business days from the date of the Equity Transfer Agreement. The balance of the consideration shall be paid within 10 business days on which all the approvals from the PRC governmental and regulatory authorities for the Disposal being obtained.

### **Basis of Consideration**

The consideration of RMB101,760,000 (equivalent to approximately HK\$125,205,000) for the Disposal was arrived at after arm's length negotiations between the parties to the Equity Transfer Agreement taking into consideration the appraised value of the Equity Interest as at 30 June 2012, prepared by an independent international valuer.

The Directors (including the independent non-executive Directors), having considered the transaction contemplated under the Equity Transfer Agreement, are of the view that the terms of the Equity Transfer Agreement (including the consideration) are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Having made all reasonable enquiry, none of the Directors has a material interest in the transaction contemplated under the Equity Transfer Agreement.

### **Completion**

Within 10 business days from the date of the Equity Transfer Agreement, Inner Mongolia Mengniu as vendor, will endorse the transfer of the Equity Interest. Within 30 business days from the date of the endorsement, Inner Mongolia Mengniu will procure to obtain all the approvals from the PRC governmental and regulatory authorities for the Disposal.

Completion will take place after all approvals from the PRC governmental and regulatory

authorities for the Disposal being obtained.

### **Connected Person Relationship**

As Mr. Yang was an executive director and chief executive officer of the Company and Inner Mongolia Mengniu within the preceding 12 months until 12 April 2012, Mr. Yang is a connected person of the Company under Rule 14A.11(2) of the Listing Rules.

### **Listing Rules Implications**

Since Mr. Yang is regarded as a connected person under Rule 14A.11(2) of the Listing Rules, the entering into of the Equity Transfer Agreement with Mr. Yang constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the relevant percentage ratios, calculated pursuant to Rule 14.07 of the Listing Rules, exceed 0.1% but are less than 5%, the entering into of the Equity Transfer Agreement by Inner Mongolia Mengniu, being on normal commercial terms, is subject to the announcement and reporting requirements but is exempt from the independent shareholders' approval requirement under Rule 14A.32 of the Listing Rules.

### **General information on the Group and reasons for the Disposal**

#### **The Company**

The Company is one of the leading dairy product manufacturers in China, principally engaged in the manufacturing and distribution of quality dairy products, including liquid milk, ice-cream and other dairy products.

#### **Inner Mongolia Mengniu**

Inner Mongolia Mengniu is established in the PRC and is the Group's main operating subsidiary. Inner Mongolia Mengniu is engaged in manufacturing and distribution of dairy products, including liquid milk (comprising UHT milk, milk beverages and yogurt), ice cream and other dairy products (such as milk powder) in China.

#### **Saikexing**

Saikexing is established in the PRC and is principally engaged in production and operation relating to the frozen semen breeding of Holstein and Jersey cattle; reproduction of dairy cattle by artificial insemination with frozen semen; husbandry and breeding of dairy cattle cultivation and sale of cattle embryos. As at the date of this announcement, Saikexing is held as to 21.92% by Inner Mongolia Mengniu.

Based on the management accounts of Saikexing as at 30 June 2012, the unaudited net asset value of Saikexing as at 30 June 2012 was approximately RMB312,600,000. Set out below are the audited financial figures of Saikexing for the years ended 31 December 2010 and 2011 prepared in accordance with the prevailing PRC GAAP:

	<b>For the year ended 31 December 2010</b>	<b>For the year ended 31 December 2011</b>
	<i>RMB</i>	<i>RMB</i>
Net profit before taxation	22,745,000	34,236,000
Net Profit after taxation	*22,745,000	*34,236,000

\*Note: No tax is payable on the net profit.

The Board believes that after the Disposal, the Company's management can focus on its principal business. After the Disposal, Saikexing will cease to be accounted as associated corporation of the Company and Inner Mongolia Mengniu will continue to hold a minority equity interest of approximately 4.14% in Saikexing. By keeping a minority equity interest in Saikexing, the Company will continue to gain first hand insight of the dairy industry market trend, in particular, the new development in cultivation and sale of cattle embryos which are related to the Group's core business.

Based on the unaudited net asset value attributable to the Equity Interest, as at 30 June 2012, of approximately RMB55,573,000 (equivalent to approximately HK\$68,376,000) as shown in the management accounts of Saikexing prepared in accordance with PRC GAAP, the Company estimates that the Company will record a gain of approximately RMB46,187,000 (equivalent to approximately HK\$56,828,000) arising from the Disposal, being the difference between the consideration under the Equity Transfer Agreement and the unaudited net asset value attributable to the Equity Interest (before tax and deduction of any expenses incurred in relation to the Disposal). The actual quantum of the actual gain is subject to audit by the Company's auditors.

The Company intends to use the proceeds from the Disposal as general working capital.

The Directors (including the independent non-executive Directors) consider that the transaction under the Equity Transfer Agreements is conducted after arm's length negotiations and the terms thereof represent normal commercial terms and are fair and reasonable and are in the interests of the Company and the Shareholders.

## Definitions

“Board”	the board of directors of the Company
“business day”	a day other than Saturday, Sunday or public holiday, on which banks in the PRC are open for general banking transactions
“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
“connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of the Equity Interest by Inner Mongolia Mengniu under the Equity Transfer Agreement
“Equity Interest”	32,000,000 ordinary shares in Saikexing, representing approximately 17.78% equity interest in Saikexing
“Equity Transfer Agreement”	the equity transfer agreement entered into between Inner Mongolia Mengniu as vendor and Mr. Yang as purchaser dated 8 November 2012 in relation to the Disposal
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Inner Mongolia Mengniu”	Inner Mongolia Mengniu Dairy (Group) Company Limited* (內蒙古蒙牛乳業（集團）股份有限公司), a company incorporated in the PRC and is engaged in the business of manufacturing and sale of dairy products. Inner Mongolia Mengniu is a 93.29% owned subsidiary of the Company as at the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Mr. Yang”	Mr. Yang Wenjun, a former director and chief executive officer of the Company and Inner Mongolia Mengniu
“PRC or China”	The People’s Republic of China
“PRC GAAP”	PRC Generally Accepted Accounting Principle
“RMB”	Renminbi, the lawful currency of the PRC
“Saikexing”	Inner Mongolia Mengniu Saikexing Reproductive Biotechnology Co., Ltd* (內蒙古賽科星繁育生物技术股份有限公司), a company incorporated in the PRC and is engaged in the business of cultivation and sale of cattle embryos. Saikexing is owned as to 21.92% by Inner Mongolia Mengniu as at the date of this announcement
“Shareholders”	holder(s) of the ordinary share(s) in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	percent

*For the purpose of this announcement, amounts quoted in RMB have been converted into HK\$ at a rate of HK\$1.00 to RMB0.81275. Such exchange rate has been used, where applicable, for the purposes of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.*

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

Hong Kong, 8 November 2012

*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 and Mr. Finn S. Hansen as non-executive Directors, Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Liu Fuchun, Mr. Zhang Xiaoya and Mr. Xie Tao as independent non-executive Directors.*

*\* For identification purposes only*