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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)**

**China Modern Dairy Holdings Ltd.**

中國現代牧業控股有限公司

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

**(Stock Code: 1117)**

## **JOINT OFFER ANNOUNCEMENT**

**(1) POSSIBLE CONDITIONAL MANDATORY CASH OFFERS BY UBS AG AND DBS ASIA CAPITAL LIMITED FOR AND ON BEHALF OF CHINA MENGNIU DAIRY COMPANY LIMITED TO ACQUIRE ALL THE ISSUED SHARES IN CHINA MODERN DAIRY HOLDINGS LTD. (OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE ACQUIRED BY CHINA MENGNIU DAIRY COMPANY LIMITED AND PARTIES ACTING IN CONCERT WITH IT) AND FOR CANCELLATION OF ALL OUTSTANDING OPTIONS IN CHINA MODERN DAIRY HOLDINGS LTD.**

**(2) MAJOR TRANSACTION OF CHINA MENGNIU DAIRY COMPANY LIMITED**

**Financial adviser to China Mengniu Dairy Company Limited**



**Joint financial adviser to China Mengniu Dairy Company Limited**



\* For identification purposes only

## **POSSIBLE CONDITIONAL MANDATORY CASH OFFERS**

On 4 January 2017, Mengniu entered into a sale and purchase agreement with Success Dairy II, pursuant to which Mengniu has conditionally agreed to acquire and Success Dairy II has conditionally agreed to sell 965,465,750 CMD Shares (being the Subject Shares) for a Consideration of HK\$1,873,003,555, payable in U.S. dollars, which is equivalent to US\$241,475,350, as determined by the Exchange Rate. The Consideration represents HK\$1.94 per CMD Share, which is equivalent to US\$0.25 per CMD Share, as determined by the Exchange Rate, assuming the Investor Option is exercised. As at the date of this joint announcement, Success Dairy II holds the Existing CMD Shares and the Investor Option.

As disclosed in CMD's announcement dated 12 December 2016, Success Dairy II has been granted the Investor Option. An irrevocable notice to exercise the Investor Option has been served on CMD by Success Dairy II on 28 December 2016, which is conditional upon, among other things, Mengniu Shareholders having approved the Transaction. Upon exercise of the Investor Option and as clarified by CMD's announcement dated 21 December 2016, CMD shall issue 488,036,618 CMD Shares to Success Dairy II pursuant to the terms of the Investor Option. Together with the Existing CMD Shares held by Success Dairy II, Success Dairy II will hold an aggregate of 965,465,750 CMD Shares, representing approximately 16.7% of the total issued share capital of CMD on a fully diluted basis on SPA Completion, assuming no repurchases or other issuances of CMD Shares. Pursuant to the Supplemental Deed, upon exercise of the Investor Option, Success Dairy II will also be entitled to receive a cash top-up amount of US\$13,424,231 which remains to be payable by CMD. Mengniu is not obliged to make payment of such cash top-up amount under the SPA.

SPA Completion is conditional upon the fulfillment (or, with respect to certain Conditions, waiver) of the Conditions as described in the paragraph headed "Conditions to the SPA" under the section headed "Sale and Purchase Agreement" in this joint announcement.

As at the date of this joint announcement, Mengniu owns 1,347,903,000 CMD Shares, representing approximately 25.4% of the total issued share capital of CMD. Immediately after SPA Completion, Mengniu and its Concert Parties are expected to beneficially own in aggregate 2,313,368,750 CMD Shares, representing approximately 39.9% of the total issued share capital of CMD. Mengniu will accordingly be required to make (i) a conditional mandatory cash offer for all the issued CMD Shares not already owned or agreed to be acquired by Mengniu and its Concert Parties pursuant to Rule 26.1 of the Takeovers Code, and (ii) an appropriate offer to the Optionholders for the cancellation of the outstanding CMD Options pursuant to Rule 13 of the Takeovers Code.

Subject to SPA Completion, UBS as the financial adviser and DBS as the joint financial adviser, will make the Offers, for and on behalf of Mengniu, in compliance with the Takeovers Code on the following terms:

### **PRINCIPAL TERMS OF THE OFFERS**

#### **The Share Offer**

For each Offer Share . . . . . HK\$1.94 or US\$0.25 in cash

The Offer Price of HK\$1.94 or US\$0.25 for each Offer Share under the Share Offer is equivalent to the consideration per CMD Share of HK\$1.94 or US\$0.25 pursuant to the SPA, assuming the Investor Option is exercised and as determined using the Exchange Rate.

The Share Offer is conditional only upon Mengniu having received acceptances in respect of CMD Shares which, together with the CMD Shares Mengniu intends to acquire from Success Dairy II, will result in Mengniu and its Concert Parties holding more than 50% of the total issued share capital of CMD.

### **The Option Offer**

For each CMD Option with exercise price  
lower than the Offer Price . . . . . HK\$1.94 or US\$0.25 less the  
exercise price in respect of the  
relevant CMD Option in cash

For each CMD Option with exercise price  
above the Offer Price. . . . . HK\$0.0001 or  
US\$0.000013 in cash

The Option Offer will be extended to all eligible Optionholders in accordance with the Takeovers Code. The Option Offer will be conditional only upon the Share Offer becoming or being declared unconditional.

Details of the Option Offer are set out under the paragraph headed “The Option Offer” under the section “Possible Conditional Mandatory Cash Offers”.

As at the date of this joint announcement, there are 5,304,767,883 CMD Shares in issue (of which 1,347,903,000 are held by Mengniu and its Concert Parties), the Investor Option and outstanding 315,962,147 CMD Options conferring rights on Success Dairy II and the Optionholders, respectively, to subscribe for CMD Shares. Save for the aforesaid Investor Option and CMD Options, CMD does not have any other outstanding warrants or derivatives or convertible rights affecting the CMD Shares.

### **Payment**

Accepting CMD Shareholders and Optionholders may elect to be paid in either Hong Kong dollars or in U.S. dollars, but not in both. If no election is made, such CMD Shareholder or Optionholder is deemed to have accepted payment in Hong Kong dollars.

### **Value of the Offers**

Excluding the Non-Accepting Shareholders who will not accept the Offers and assuming that (a) the Investor Option is exercised, (b) there is no change in the issued share capital of CMD other than the issuance of New CMD Shares upon the exercise of the Investor Option, and (c) none of the outstanding CMD Options is exercised prior to the close of the Offers, the Offers are valued at approximately HK\$6,413,337,969 in aggregate.

Excluding the Non-Accepting Shareholders who will not accept the Offers and assuming that (a) the Investor Option is exercised, (b) all CMD Options are exercised before they lapse prior to the close of the Offers, and (c) all CMD Shares issued on the exercise of the CMD Options will be tendered for acceptance under the Share Offer, the Offers are valued at approximately HK\$6,923,891,360 in aggregate.

Principal terms of the possible Offers are set out under the section headed “Possible Conditional Mandatory Cash Offers” in this joint announcement.

### **Confirmation of Financial Resources**

Mengniu will finance the Offers by internal resources and external debt facilities. UBS has been appointed as the financial adviser and DBS has been appointed as the joint financial adviser to Mengniu in respect of the Offers. UBS and DBS are satisfied that sufficient resources are available to Mengniu to satisfy the Consideration for the Subject Shares under the SPA and the full acceptance of the Offers (excluding the CMD Shares owned by the Non-Accepting Shareholders).

### **Non-Accepting Shareholders**

Mengniu and CMD have received written unconditional and irrevocable confirmations and undertakings from certain CMD Shareholders that they will not accept the Offers. Details of such unconditional and irrevocable confirmations and undertakings are set out in the section headed “Non-Accepting Shareholders”.

### **Listing Status of CMD**

As the Non-Accepting Shareholders have indicated that they will not accept the Offers, Mengniu is not expected to be able to acquire the requisite percentage of CMD Shares to enable it to compulsorily acquire all the issued CMD Shares under Cayman Islands Companies Law and the Takeovers Code. Accordingly, after completion of the Offers, Mengniu will maintain the listing status of CMD. Assuming the Offers become or are declared unconditional in all respects, Mengniu will undertake to the Stock Exchange to take appropriate steps following the close of the Offers to ensure that such number of CMD Shares as may be required by the Stock Exchange are held by the public within the prescribed time frame. Any future transactions between the CMD Group and Mengniu Group will be carried out on an arm’s length basis and in compliance with the Listing Rules.

### **No Increase and No Extension Statement**

Mengniu has undertaken to Success Dairy II that the Offer Price will be at HK\$1.94 or US\$0.25 per CMD Share and will not be increased. Accordingly, the Offer Price will remain at HK\$1.94 or US\$0.25 per CMD Share and will not be increased, and Mengniu does not reserve the right to do so.

Further, the Offers will be open for acceptance for 21 days following the date on which the Composite Document is posted. Unless the Offers become unconditional as to acceptances, the Offers will not be extended beyond the first date on which it is permitted to be closed.

CMD Shareholders, Optionholders and investors should be aware that, following the making of such statement, Mengniu will not be allowed to increase the Offer Price save in wholly exceptional circumstances, as provided in Rule 18.3 of the Takeovers Code.

### **LISTING RULES IMPLICATIONS AND MAJOR TRANSACTION**

Assuming SPA Completion takes place and all of the CMD Shareholders (other than Mengniu and its Concert Parties) tender their CMD Shares for acceptance under the Offers, CMD will become a subsidiary of Mengniu. As such, the applicable percentage ratios under Rule 14.07 of the Listing Rules for Mengniu in respect of the Offers are 25% or more but all applicable percentage ratios are less than 100%. Therefore the Offers constitute a major transaction for Mengniu which is subject to notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Mengniu Directors, after having made all reasonable enquiries, no Mengniu Shareholder or any of their respective associates have any material interest in the Transaction that are different to that of other Mengniu Shareholders. As such, no Mengniu Shareholder would be required to abstain from voting in favor of the resolution approving the Transaction.

**WARNING: The Offers are a possibility only. SPA Completion is conditional upon the fulfilment (or, with respect to certain Conditions, waiver) of the Conditions set out under the paragraph headed "Conditions to the SPA" under the section headed "Sale and Purchase Agreement" in this joint announcement. Accordingly, SPA Completion may or may not take place and the Offers may or may not be made. CMD Shareholders, Optionholders and potential investors should therefore exercise caution when dealing in CMD Shares or CMD Options or other rights in respect of them. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.**

### **INTRODUCTION**

On 4 January 2017, Mengniu entered into a sale and purchase agreement with Success Dairy II, pursuant to which Mengniu has conditionally agreed to acquire and Success Dairy II has conditionally agreed to sell 965,465,750 CMD Shares (being the Subject Shares) for a Consideration of HK\$1,873,003,555, payable in U.S. dollars, which is equivalent to US\$241,475,350, as determined by the Exchange Rate. The Consideration represents HK\$1.94 per CMD Share, which is equivalent to US\$0.25 per CMD Share, as determined by the Exchange Rate, assuming the Investor Option is exercised. As at the date of this joint announcement, Success Dairy II holds the Existing CMD Shares and the Investor Option.

As disclosed in CMD's announcement dated 12 December 2016, Success Dairy II has been granted the Investor Option. An irrevocable notice to exercise the Investor Option has been served on CMD by Success Dairy II on 28 December 2016, which is conditional upon, among other things, Mengniu Shareholders having approved the Transaction. Upon exercise of the Investor Option and as clarified by CMD's announcement dated 21 December 2016, CMD shall issue 488,036,618 CMD Shares to Success Dairy II pursuant to the terms of the Investor Option. Together with the Existing CMD Shares held by Success Dairy II, Success Dairy II will hold an aggregate of 965,465,750 CMD Shares, representing approximately 16.7% of the total issued share capital of CMD on a fully diluted basis on SPA Completion, assuming no repurchases or other issuances of CMD Shares. Pursuant to the Supplemental Deed, upon exercise of the Investor Option, Success Dairy II will also be entitled to receive a cash top-up amount of US\$13,424,231 which remains to be payable by CMD. Mengniu is not obliged to make payment of such cash top-up amount under the SPA.

SPA Completion is conditional upon the fulfillment (or, with respect to certain Conditions, waiver) of the Conditions as described in the paragraph headed "Conditions to the SPA" under the section headed "Sale and Purchase Agreement" in this joint announcement.

Set out below are the principal terms of the SPA.

## **SALE AND PURCHASE AGREEMENT**

Date: 4 January 2017

Parties: Mengniu

Success Dairy II

To the best of the knowledge, information and belief of Mengniu Directors, having made all reasonable enquiries, Success Dairy II and its ultimate beneficial owners are (i) third parties independent of and not connected with Mengniu and its connected persons, and are (ii) not their Concert Parties, save that Mr. Wolhardt Julian Juul, who is a Mengniu Director, is also a director of Success Dairy II.

### **The Subject Shares**

The Subject Shares comprise the Existing CMD Shares and the New CMD Shares, representing approximately 16.7% of the total issued share capital of CMD on SPA Completion on a fully diluted basis, assuming no repurchases or other issuances of CMD Shares by CMD.

Upon SPA Completion, Success Dairy II will cease to hold any CMD Shares.

### **Consideration under the SPA**

The Consideration under the SPA is HK\$1,873,003,555, payable in U.S. dollars, which is equivalent to US\$241,475,350, as determined by the Exchange Rate. The Consideration represents HK\$1.94 or US\$0.25 per CMD Share assuming the Investor Option is exercised. The Consideration was agreed between Mengniu and Success Dairy II after arm's length



negotiation with reference to (i) the valuation adjustment mechanism as stated in CMD's announcement dated 12 December 2016, (ii) the historical operating and financial performance of the CMD Group; (iii) the historical and recent trading prices of CMD; and (iv) the growth potential of the business of the CMD Group. The Exchange Rate represents the average mid-point HK\$ to US\$ "bank buy" and "bank sell" exchange rate announced by the Hong Kong and Shanghai Banking Corporation Limited on the date immediately preceding the date of the SPA. Based on the foregoing, the Mengniu Directors are of the view that the Consideration for the acquisition of the Subject Shares is fair and reasonable. The Consideration for the Subject Shares payable by Mengniu shall be funded by internal resources and external debt facilities.

### **Conditions to the SPA**

SPA Completion is conditional on the following Conditions, among others, being satisfied or waived in accordance with the SPA:

- (a) Success Dairy II becoming the beneficial owner of 965,465,750 CMD Shares, representing not less than 16.7% of the issued share capital of CMD on SPA Completion on a fully diluted basis, assuming no repurchases or other issuances of CMD Shares by CMD;
- (b) the listing of the CMD Shares and the listing approval for the New CMD Shares to be issued upon the exercise of the Investor Option not having been withdrawn (or otherwise subject to any conditions), the CMD Shares continuing to be traded on the SEHK prior to the SPA Completion Date (save for any temporary suspension of trading of CMD Shares as a result of the Transaction); and
- (c) Mengniu Shareholders having approved the Transaction at the EGM.

The Condition set out in (c) may not be waived in any event by Mengniu or Success Dairy II. The Conditions set out in (a) and (b) may only be waived by Mengniu in writing.

If the above Conditions have not been satisfied or waived on or before 11:59 p.m. on the Long Stop Date, then the SPA shall terminate automatically with immediate effect.

### **SPA Completion**

SPA Completion shall take place on the SPA Completion Date after the satisfaction or waiver of the Conditions above (as the case may be), save for Conditions which cannot be waived or which can only be satisfied upon SPA Completion.

### **Termination**

If the Conditions have not been satisfied or waived on or before the Long Stop Date, the SPA will automatically terminate. In such event, no party to the SPA shall have any claim under the SPA against any other party except in respect of any rights and liabilities which have accrued before termination or under any surviving provisions.

## **POSSIBLE CONDITIONAL MANDATORY CASH OFFERS**

As at the date of this joint announcement, Mengniu owns 1,347,903,000 CMD Shares, representing approximately 25.4% of the total issued share capital of CMD. Immediately after SPA Completion, Mengniu and its Concert Parties are expected to beneficially own in aggregate 2,313,368,750 CMD Shares, representing approximately 39.9% of the total issued share capital of CMD. Mengniu will accordingly be required to make (i) a mandatory conditional cash offer for all the issued CMD Shares not already owned or agreed to be acquired by Mengniu and its Concert Parties pursuant to Rule 26.1 of the Takeovers Code, and (ii) an appropriate offer to the Optionholders for the cancellation of the outstanding CMD Options pursuant to Rule 13 of the Takeovers Code.

Upon SPA Completion, UBS as the financial adviser and DBS as the joint financial adviser, will make the Offers, for and on behalf of Mengniu, in compliance with the Takeovers Code on the following terms:

### **Principal Terms of the Offers**

#### **The Share Offer**

For each Offer Share . . . . . HK\$1.94 or US\$0.25 in cash

The Offer Price of HK\$1.94 or US\$0.25 for each Offer Share under the Share Offer is equivalent to the consideration per CMD Share of HK\$1.94 or US\$0.25 pursuant to the SPA, assuming the Investor Option is exercised and as determined using the Exchange Rate.

The Share Offer is conditional only upon Mengniu having received acceptances in respect of CMD Shares which, together with the CMD Shares Mengniu intends to acquire from Success Dairy II, will result in Mengniu and its Concert Parties holding more than 50% of the total issued share capital of CMD.

#### **The Option Offer**

For each CMD Option with exercise price  
lower than the Offer Price . . . . . HK\$1.94 or US\$0.25 less the  
exercise price in respect of the  
relevant CMD Option in cash

For each CMD Option with exercise price  
above the Offer Price. . . . . HK\$0.0001 or  
US\$0.000013 in cash

The Option Offer will be extended to all eligible Optionholders in accordance with the Takeovers Code. The Option Offer will be conditional only upon the Share Offer becoming or being declared unconditional.



As at the date of this joint announcement, CMD has adopted the Management Option Scheme, the Share Option Scheme I, Share Option Scheme II and Share Option Scheme III. A CMD Option granted under any and each of the Option Schemes may be exercised in accordance with their respective terms. In addition, under the terms of the Option Schemes, the CMD Options are not assignable, and Optionholders may not in any way sell, transfer, assign, charge, mortgage, encumber or create any interest in favor of any third party over or in relation to any CMD Option or purport to do any of the foregoing.

The offer price per CMD Option under the Option Offer is illustrated in the following table:

| <b>CMD Option</b>                                      | <b>Vested</b> | <b>Exercise price per CMD Share</b> | <b>Offer price per CMD Option (HK\$/US\$) <sup>Note</sup></b> |
|--|---------------|-------------------------------------|---|
| CMD Options granted under the Management Option Scheme | Yes           | HK\$0.86                            | HK\$1.08/<br>US\$0.14   |
| CMD Options granted under the Share Option Scheme I    | Yes           | HK\$2.89                            | HK\$0.0001/<br>US\$0.000013                                   |
| CMD Options granted under the Share Option Scheme II   | No            | HK\$3.38                            | HK\$0.0001/<br>US\$0.000013                                   |
|  |               | HK\$2.83                            | HK\$0.0001/<br>US\$0.000013                                   |
|  |               | HK\$1.52                            | HK\$0.42/<br>US\$0.05   |
| CMD Options granted under the Share Option Scheme III  | No            | HK\$1.71                            | HK\$0.23/<br>US\$0.03   |

*Note:* The US\$ is converted using the Exchange Rate

## **Others**

As at the date of this joint announcement, there are 5,304,767,883 CMD Shares in issue (of which 1,347,903,000 are held by Mengniu and its Concert Parties), the Investor Option and outstanding 315,962,147 CMD Options conferring rights on Success Dairy II and the Optionholders, respectively, to subscribe for CMD Shares. Save for the aforesaid Investor Option and CMD Options, CMD does not have any other outstanding securities, options, warrants or derivatives or convertible rights affecting the CMD Shares.

In accordance with the terms of the Share Option Scheme I, Share Option Scheme II and Share Option Scheme III, if a general offer is made to all the CMD Shareholders and the offer becomes or is declared unconditional, the Optionholders are entitled to exercise the CMD Options (to the extent vested but not already exercised) before the expiry of the period of 10 business days (as defined in the Listing Rules) following the day when the general offer becomes or is declared unconditional. Under the rules of the Management Option Scheme, the relevant CMD Options that remain exercisable but are unexercised may continue to be exercised.

## Non-Accepting Shareholders

Details of the Non-Accepting Shareholders and the details of their non-acceptance are set out below.

| Non-Accepting<br>CMD<br>Shareholders              | Number of<br>CMD<br>Shares held | % of issued<br>CMD Shares <sup>Note</sup> | Details of Non-Acceptance  |
|---|---------------------------------|---|--|
| Ms. Lina Gao                                      | 4,800,000                       | 0.08%                                     | Ms. Lina Gao is an executive CMD Director. She has unconditionally and irrevocably confirmed and undertaken to Mengniu and CMD that until the Offers end, lapse or are withdrawn, she will continue to own the legal and beneficial interests in her CMD Shares and she will not accept any part of the Offers and will not tender her CMD Shares for acceptance.  |
| Jinmu Holdings Company Limited (“ <b>Jinmu</b> ”) | 221,581,733                     | 3.61%                                     | Jinmu has unconditionally and irrevocably confirmed and undertaken to Mengniu and to CMD that until the Offers end, lapse or are withdrawn, it will continue to own the legal and beneficial interests in its CMD Shares and it will not accept any part of the Offers and will not tender its CMD Shares for acceptance. Jinmu’s controlling shareholder and sole director is Ms. Lina Gao.   |
| 左衛林   | 121,638,225                     | 1.98%                                     | As disclosed in CMD’s circular to CMD Shareholders dated 15 July 2016, CMD had entered into a sale and purchase agreement dated 16 June 2016 with 左衛林, 楊景超, 郭漢卿, 孫永平 and 劉雁斌 (the “ <b>Individuals</b> ”) whereby a total of 338,602,205 CMD Shares would be issued to the Individuals by CMD as consideration shares at the completion date of such sale and purchase agreement (the “ <b>June 16 SPA</b> ”). It is expected that the completion date of the June 16 SPA will fall within the commencement and close of the Offers, upon which new CMD Shares will be issued to the Individuals in accordance with the terms of the June 16 SPA. Accordingly, the Share Offer will also be extended to these Individuals as and when the new CMD Shares are issued to them. |
| 楊景超   | 12,163,823                      | 0.20%                                     |  |
| 郭漢卿   | 119,347,119                     | 1.95%                                     |  |
| 孫永平   | 63,606,424                      | 1.04%                                     |  |
| 劉雁斌   | 21,846,614                      | 0.36%                                     |  |
|   |                                 |   | Pursuant to the terms the June 16 SPA, the Individuals have undertaken to CMD that they will not dispose of the CMD Shares to be issued to them (“ <b>Lock-up</b> ”) within one year from the completion date of the June 16 SPA. To ensure compliance with the Lock-up, the CMD Shares owned by the Individuals will be held in an escrow account of which CMD has control. CMD has unconditionally and irrevocably confirmed and undertaken to Mengniu that it will not (1) agree to the Individuals accepting any part of the Offers; (2) allow the CMD Shares held in the escrow account to be released from the account; or (3) enable the Individuals to tender their CMD Shares for acceptance in the Offers.   |
| <b>Total</b>                                      | <b>564,983,938</b>              | <b>9.21%</b>                              |  |

*Note:* Assuming the Investor Option is exercised, CMD Shares are issued to the Individuals and none of the outstanding CMD Options is exercised.

## **Comparisons of value**

The Offer Price of HK\$1.94 per Offer Share represents:

- (a) a premium of approximately 3.2% to the closing price of HK\$1.88 per CMD Share as quoted on the Stock Exchange on 3 January 2017, being the Last Trading Day; and
- (b) a premium of approximately 26.0% over the audited consolidated net assets of the CMD Group per CMD Share of approximately HK\$1.54 (based on 5,304,767,883 CMD Shares in issue) as at 30 June 2016 (being the date on which the latest published audited accounts of the CMD Group were made up).

## **Highest and lowest trading prices**

During the six-month period immediately prior to and including the Last Trading Day, the highest closing price of the CMD Shares as quoted on the Stock Exchange was HK\$2.13 per CMD Share on 29 November 2016 and the lowest closing price of the CMD Shares as quoted on the Stock Exchange was HK\$0.99 per CMD Share on 15 July 2016.

## **Value of the Offers**

Excluding the Non-Accepting CMD Shareholders who will not accept or are not in a position to accept the Offers and assuming that (a) the Investor Option is exercised, (b) there is no change in the issued share capital of CMD other than the issuance of New CMD Shares upon the exercise of the Investor Option, and (c) none of the outstanding CMD Options is exercised prior to the close of the Offers, the Offers are valued at approximately HK\$6,413,337,969 in aggregate.

Excluding the Non-Accepting CMD Shareholders who will not accept or are not in a position to accept the Offers and assuming that (a) the Investor Option is exercised, (b) all CMD Options are exercised before they lapse prior to the close of the Offers, and (c) all CMD Shares issued on the exercise of the CMD Options will be tendered for acceptance under the Share Offer, the Offers are valued at approximately HK\$6,923,891,360 in aggregate.

## **No Increase and No Extension Statement**

Mengniu has undertaken to Success Dairy II that the Offer Price will be at HK\$1.94 or US\$0.25 per CMD Share and will not be increased. Accordingly, the Offer Price will remain at HK\$1.94 or US\$0.25 per CMD Share and will not be increased, and Mengniu does not reserve the right to do so.

Further, the Offers will be open for acceptance for 21 days following the date on which the Composite Document is posted. Unless the Offers become unconditional as to acceptances, the Offers will not be extended beyond the first date on which it is permitted to be closed.

CMD Shareholders, Optionholders and investors should be aware that, following the making of such statement, Mengniu will not be allowed to increase the Offer Price save in wholly exceptional circumstances, as provided in Rule 18.3 of the Takeovers Code.

### **Use of Wholly-Owned Subsidiaries by Mengniu**

Without prejudice to the obligations of Mengniu under this joint announcement, Mengniu reserves its right to make the Offers or complete the SPA through one or more of its wholly-owned subsidiaries that are directly or indirectly held by Mengniu.

### **Confirmation of Financial Resources**

Mengniu will finance the Offers by internal resources and external debt facilities. UBS has been appointed as the financial adviser and DBS has been appointed as the joint financial adviser to Mengniu in respect of the Offers. UBS and DBS are satisfied that sufficient resources are available to Mengniu to satisfy the Consideration for the Subject Shares under the SPA and the full acceptance of the Offers (excluding the CMD Shares owned by the Non-Accepting Shareholders).

### **Effect of Accepting the Offers**

By validly accepting the Share Offer, the CMD Shareholders will sell to Mengniu their CMD Shares free from all Third Party Rights and together with all rights attaching or accruing to the CMD Shares as at the date of despatch of the Composite Document, including the rights to receive all dividends and distribution declared, made or paid on or after the date of despatch of the Composite Document.

By validly accepting the Option Offer, the outstanding CMD Options tendered by the Optionholders will be cancelled, together with all rights attaching thereto with effect from the date of despatch of the Composite Document. Optionholders should note that under the respective rules of the Option Scheme I, Option Scheme II and Option Scheme III, all CMD Options that remain unexercised prior to the earlier of (i) the date of expiry of the option period, or (ii) the last day of the period of 10 business days (as defined in the Listing Rules) after the date on which the Share Offer becomes or is declared unconditional, shall lapse. Under the rules of the Management Option Scheme, the relevant CMD Options that remain exercisable but are unexercised may continue to be exercised.

Acceptance of the Offers shall be irrevocable and shall not be capable of being withdrawn, subject to the Takeovers Code.

## **Other arrangements**

Mengniu confirms that as at the date of this joint announcement:

- (i) save for the 1,347,903,000 CMD Shares that Mengniu and its Concert Parties own as at the date of this joint announcement, neither Mengniu nor any of its Concert Parties (excluding exempt principal traders and exempt fund managers) owns or has control or direction over any voting rights or rights over the CMD Shares or convertible securities, warrants, options of CMD or any derivatives in respect of such securities;
- (ii) there is no outstanding derivative in respect of the securities in CMD entered into by Mengniu or any of its Concert Parties;
- (iii) there is no arrangement (whether by way of option, indemnity or otherwise) of any kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the Mengniu Shares or the CMD Shares and which might be material to the Offers;
- (iv) save for the SPA, there is no agreement or arrangement to which Mengniu or any of its Concert Parties is a party which relates to circumstances in which Mengniu may or may not invoke or seek to invoke a pre-condition or a condition to the Offers;
- (v) neither Mengniu nor any of its Concert Party has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of CMD;
- (vi) neither Mengniu nor any of its Concert Parties (excluding exempt principal traders and exempt fund managers) had dealt for value in any CMD Shares, convertible securities, warrants or options of CMD or any derivatives in respect of such securities in the 6 months prior to 4 January 2017 (being the date of commencement of the offer period of the Offers); and
- (vii) other than the Non-Accepting Shareholders, neither Mengniu nor any of its Concert Parties has received any irrevocable commitment to accept or not accept the Offers.

## **Stamp Duty**

In Hong Kong, seller's ad valorem stamp duty arising in connection with acceptances of the Share Offer will be payable by the relevant CMD Shareholder at a rate of 0.1% of (i) the market value of the CMD Shares; or (ii) consideration payable by Mengniu in respect of the relevant acceptances of the Share Offer, whichever is higher, and will be deducted from the cash amount payable by Mengniu to the relevant CMD Shareholders accepting the Share Offer. Mengniu will arrange for payment of the seller's ad valorem stamp duty on behalf of the relevant CMD Shareholders accepting the Share Offer and will pay its respective portion of the buyer's ad valorem stamp duty in connection with the acceptance of the Share Offer and the transfer of the CMD Shares in accordance with the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

No stamp duty is payable in connection with the acceptance of the Option Offer.

## **Payment**

Payment (after deducting the accepting CMD Shareholders' share of ad valorem stamp duty in connection with the Share Offer) in cash in respect of acceptances of the Offers will be made as soon as possible but in any event within 7 business days (as defined under the Takeovers Code) of the date on which duly completed acceptances of the Offers and the relevant documents of title of the CMD Shares or the CMD Options (as the case may be) are received by Mengniu to render each such acceptance complete and valid.

Accepting CMD Shareholders and Optionholders may elect to be paid in either Hong Kong dollars or in U.S. dollars, but not in both. If no election is made, such CMD Shareholder or Optionholder is deemed to have accepted payment in Hong Kong dollars.

No fraction of a cent will be payable and the amount of the consideration payable to a person who accepts the Offers will be rounded up to the nearest cent.

## **Taxation advice**

CMD Shareholders and Optionholders are recommended to consult their own professional advisers as to the taxation implications of accepting or rejecting the Offers. None of Mengniu, CMD and their respective directors, officers or associates or any other person involved in the Offers accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Offers.

## **Overseas CMD Shareholders and Optionholders**

The making of the Offers to persons who are citizens, residents or nationals of jurisdictions outside Hong Kong may be affected by or subject to the laws and regulations of the relevant jurisdictions. Such persons should inform themselves about and observe any applicable legal, tax and regulatory requirements in their own jurisdictions. It is the responsibility of any overseas CMD Shareholders and Optionholders wishing to accept the Offers to satisfy themselves as to the full observance of the laws of the relevant jurisdictions in connection with the Offers, including obtaining any governmental, exchange control or other consents which may be required, or compliance with other necessary formalities and the payment of any issue, fares, transfer or other taxes due in such jurisdiction.

**Any acceptance by any overseas CMD Shareholder or Optionholder will be deemed to constitute a representation and warranty from such overseas CMD Shareholder or Optionholder that the local laws and requirements in respect of such CMD Shareholder or Optionholder have been complied with. The overseas CMD Shareholders or Optionholders should consult their professional advisers if in doubt.**



## LISTING RULES IMPLICATIONS AND MAJOR TRANSACTION

Assuming SPA Completion takes place and all of CMD Shareholders (other than Mengniu and its Concert Parties) tender Offer Shares for acceptance under the Offers, CMD will become a subsidiary of Mengniu. As such, the applicable percentage ratios under Rule 14.07 of the Listing Rules for Mengniu in respect of the Offers are 25% or more but all applicable percentage ratios are less than 100%. Therefore the Offers constitute a major transaction for Mengniu which is subject to notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Mengniu Directors, after having made all reasonable enquiries, no Mengniu Shareholder or any of their respective associates have any material interest in the Transaction which is different from other Mengniu Shareholders. As such, no Mengniu Shareholder would be required to abstain from voting in favor of the resolution approving the Transaction.

**WARNING: The Offers are a possibility only. SPA Completion is conditional upon the fulfilment (or, with respect to certain Conditions, waiver) of the Conditions set out under the paragraph headed "Conditions to the SPA" under the section headed "Sale and Purchase Agreement" in this joint announcement. Accordingly, SPA Completion may or may not take place and the Offers may or may not be made. CMD Shareholders, Optionholders and potential investors should therefore exercise caution when dealing in CMD Shares, CMD Options or other rights in respect of them. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.**

## SHAREHOLDING STRUCTURE OF CMD

The shareholding structure of CMD:

- (i) as at the date of this joint announcement;
- (ii) immediately following issuance of New CMD Shares to Success Dairy II pursuant to the exercise of the Investor Option;
- (iii) immediately following SPA Completion but before the commencement of the Offers, assuming no CMD Options are exercised; and
- (iv) immediately following completion of the Offers, assuming CMD Shares are issued to the Individuals, none of the outstanding CMD Options is exercised and all CMD Shares are tendered for acceptance by CMD Shareholders under the Share Offer (other than the Non-Accepting Shareholders),

are set out as follows:

|  | As at the date of this joint announcement |               | Immediately following issuance of New CMD Shares to Success Dairy II pursuant to the exercise of the Investor Option |               | Immediately following SPA Completion but before commencement of the Offers, assuming no CMD Options are exercised |               | Immediately following the completion of the Offers, assuming CMD Shares are issued to the Individuals, none of the outstanding CMD Options is exercised and all CMD Shares are tendered for acceptance by CMD Shareholders under the Share Offer (other than the Non-Accepting Shareholders) (Note 2) |               |
|--|---|---------------|--|---------------|---|---------------|---|---------------|
|  | Number of Shares                          | Approximate % | Number of Shares   | Approximate % | Number of Shares  | Approximate % | Number of Shares  | Approximate % |
| <b>Substantial Shareholders</b>                              |   |               |  |               |   |               |   |               |
| Mengniu and its Concert Parties (excluding Success Dairy II) | 1,347,903,000                             | 25.4%         | 1,347,903,000  | 23.3%         | 2,313,368,750   | 39.9%         | 5,566,422,768   | 90.8%         |
| Success Dairy II   | 477,429,132                               | 9.0%          | 965,465,750  | 16.7%         | 0   | 0.0%          | 0   | 0.0%          |
| Xinmu Holdings Co. Ltd                                       | 671,021,025                               | 12.6%         | 671,021,025  | 11.6%         | 671,021,025   | 11.6%         | 0   | 0.0%          |
| Yinmu Holdings Co. Ltd                                       | 446,465,419                               | 8.4%          | 446,465,419  | 7.7%          | 446,465,419   | 7.7%          | 0   | 0.0%          |
| Jinmu Holdings Co. Ltd                                       | 221,581,733                               | 4.2%          | 221,581,733  | 3.8%          | 221,581,733   | 3.8%          | 221,581,733   | 3.6%          |
|  | <i>(Note 1)</i>                           |               |  |               |   |               |   |               |
| <b>Directors and Chief Executives</b>                        |   |               |  |               |   |               |   |               |
| Gao, Lina  | 4,800,000                                 | 0.1%          | 4,800,000  | 0.1%          | 4,800,000   | 0.1%          | 4,800,000   | 0.1%          |
|  | <i>(Note 1)</i>                           |               |  |               |   |               |   |               |
| <b>Other Public Shareholders</b>                             | <u>2,135,567,574</u>                      | <u>40.3%</u>  | <u>2,135,567,574</u>   | <u>36.9%</u>  | <u>2,135,567,574</u>  | <u>36.9%</u>  | <u>338,602,205</u>  | <u>5.5%</u>   |
| <b>Total</b>   | <u>5,304,767,883</u>                      | <u>100.0%</u> | <u>5,792,804,501</u>   | <u>100.0%</u> | <u>5,792,804,501</u>  | <u>100.0%</u> | <u>6,131,406,706</u>  | <u>100.0%</u> |
|  |   |               |  |               |   |               | <i>(Note 2)</i>   |               |

*Notes:*

- 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.
- The Individuals referred to in the section headed “Non-Accepting Shareholders” in this joint announcement will be issued 338,602,205 new CMD Shares by CMD pursuant to the terms of the June 16 SPA prior to the close of the Offers, thus enlarging the total issued share capital of CMD by 338,602,205 CMD Shares. The entirety of 338,602,205 CMD Shares will be subject to the Lock-up and thus will not be or are not in a position to be tendered for acceptance under the Share Offer. For further details, please refer to the section headed “Non-Accepting Shareholders” in this joint announcement.

## INFORMATION OF THE PARTIES

### 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 30 June 2016, CMD Group had 27 farms in operation in China with approximately 220,493 dairy cows in total. CMD Group's farms are situated across the PRC in strategic geographical locations that are close to downstream dairy product processing plants and feed supply sources.

The table below sets forth a summary of certain audited consolidated financial information of CMD Group for the years ended 31 December 2014 and 31 December 2015 extracted from the 2015 annual report of CMD Group and for the six months ended 30 June 2016 extracted from the 2016 interim report of CMD Group:

|   | <b>FY2014</b><br>(Audited)<br>(RMB'000) | <b>FY2015</b><br>(Audited)<br>(RMB'000) | <b>1HFY2016</b><br>(Unaudited)<br>(RMB'000) |
|---|---|---|---|
| Revenue   | 5,026,706                               | 4,826,341                               | 2,229,110                                   |
| Profits (Loss) before taxation                                      | 770,364                                 | 355,381                                 | (589,673)                                   |
| Profits (Loss) for the year/period<br>attributable to owners of CMD | 735,317                                 | 321,296                                 | (565,668)                                   |
| Net assets  | 6,655,952                               | 7,950,032                               | 7,348,023                                   |

### Mengniu

Mengniu is a company incorporated in the Cayman Islands with limited liability and Mengniu Shares have been listed on the Main Board of the Stock Exchange since 2004. The Mengniu 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 dairy products.

## **Success Dairy II**

Success Dairy II is an exempt company organized under the laws of the Cayman Islands. It is principally engaged in investment holding services. Success Dairy II is a joint venture entity ultimately held by New Dairy Investment Ltd and Crown Dairy Holdings Limited. New Dairy Investment Ltd is a subsidiary of KKR China Growth Fund L.P. Crown Dairy Holdings Limited is wholly-owned by CDH Fund IV, L.P.

### **REASONS FOR THE TRANSACTION**

#### **(1) To strengthen Mengniu's positioning in high-end dairy products market**

Mengniu Group is dedicated to improving the quality of its dairy products and to further expand into the high-end dairy products segment through continuous innovation in their products and their nutritional content as well as development of the overall business model. High quality and stable raw milk supply is essential to the success of high-end dairy products, and Mengniu Group has adopted a number of means to secure stable and high quality milk such as the construction of modernised dairy farms, investment in large-scale dairy farming companies and collaboration with leading dairy companies on farming technology and management.

CMD is the largest dairy farming company in terms of herd size and the largest raw milk producer in China and has won a widespread recognition for its stringent quality standards and stable, reliable quality assurance. As the key raw milk supplier, CMD Group's stable milk supply will enable Mengniu Group to focus on premium products with higher value-add to satisfy consumers' increasing demand for higher quality milk products.

#### **(2) To support the development of low temperature dairy products**

Given its large scale presence in China, CMD Group has excellent geographical advantages given its farms are in the close proximity of key dairy consumption regions. In addition, some of CMD Group's farms are close to Mengniu Group's downstream processing plants. Through the Transaction, Mengniu Group will be able to drive improved performance and strategic development of CMD Group in line with Mengniu Group's future growth plans. This in turn will provide strong support for the growth of Mengniu Group's low-temperature dairy production, strengthening Mengniu Group's leading position in the low-temperature dairy market.

**(3) To become an integrated market leader with demonstrated ability to control the entire value chain and further enhance operation efficiency**

CMD Group started selling raw milk to Mengniu Group in 2006 and in October 2008, the supply relationship was further formalized when Mengniu entered into a 10-year raw milk supply off-take agreement with CMD. In addition, their strategic relationship was further strengthened when Mengniu acquired a strategic stake in CMD in May 2013 and as at the date of this joint announcement, Mengniu is CMD's single largest shareholder with a 25.4% stake. The Transaction will enhance the current business collaboration and will ensure the continuity of high quality and safe raw milk supply to Mengniu Group.

In addition, CMD Group is a pioneer in domestic large-scale farming and its expertise in farming and quality management will help Mengniu Group in quality control of raw milk purchased from smaller dairy farmers, which will further improve Mengniu Group's operational capabilities.

Based on the foregoing and having carefully reviewed and considered the terms and conditions of the Transaction, the Mengniu Directors consider that the Transaction is on normal commercial terms, the terms of which are fair and reasonable and in the interests of Mengniu and Mengniu Shareholders as a whole.

## **MENGNUI'S INTENTION FOR THE CMD GROUP**

### **Operational matters, employees and senior management**

After the close of the Offers, Mengniu intends to continue the existing principal business of CMD Group. Mengniu will conduct a review of the business operations and financial position of CMD Group with a view to formulating a long term strategy and business plan suited to CMD Group. Other than proposed changes to the CMD Board as mentioned below, Mengniu has no intention to make material changes to the management of CMD Group or to terminate the employment of any employee or other personnel of CMD Group.

### **Proposed change of board composition of CMD**

The CMD Board is currently made up of 11 directors, comprising two executive CMD Directors, five non-executive CMD Directors and four independent non-executive CMD Directors. It is expected that Mr. WOLHARDT Julian Juul and Mr. HUI Chi Kin Max will resign as CMD Directors with effect from the first closing date of the Offers or such date as permitted by the Executive. In addition, Success Dairy II has agreed to use reasonable endeavors to procure certain of Mengniu's nominees to the CMD Board with effect from the date when the Composite Document is posted or such other date as the Executive may permit under Rule 26.4 of the Takeovers Code. Such appointments will be made in accordance with CMD's constitutional documents, the Takeovers Code and the Listing Rules, and their identities and relevant experience will be announced as and when they are appointed.

Notwithstanding the possible changes to the board composition of CMD, there are no changes to the independent non-executive CMD Directors. In any event, Mengniu and CMD will take all steps necessary to ensure that the number of independent non-executive CMD Directors does not fall below one-third of the total number of CMD Directors for a period longer than three months from the date that the Composite Document is posted, such that CMD shall continue to be compliant with Rule 3.11 of the Listing Rules.

### **Listing Status of CMD**

As the Non-Accepting Shareholders have indicated that they will not accept the Offers, Mengniu is not expected to be able to acquire the requisite percentage of CMD Shares to enable it to compulsorily acquire all the issued CMD Shares under Cayman Islands Companies Law and the Takeovers Code. Accordingly, after completion of the Offers, Mengniu will maintain the listing status of CMD. Assuming the Offers become or are declared unconditional in all respects, Mengniu will undertake to the Stock Exchange to take appropriate steps following the close of the Offers to ensure that such number of CMD Shares as may be required by the Stock Exchange are held by the public within the prescribed time frame. Any future transactions between the CMD Group and Mengniu Group will be carried out on an arm's length basis and in compliance with the Listing Rules.

### **GENERAL**

#### **Independent board committee and independent financial adviser**

CMD has established the Independent Board Committee comprising all the non-executive CMD Directors who have no direct or indirect interest in the Offers other than the holding of the CMD Options to advise the CMD Shareholders and the Optionholders in relation to the terms and conditions for the Offers pursuant to Rule 2.1 of the Takeovers Code. An independent financial adviser will be appointed to advise the Independent Board Committee in respect of the Offers. An announcement in relation to the appointment of an independent financial adviser will be made after such appointment.

It is the intention of Mengniu and CMD to combine the offer document and the offeree board circular in the Composite Document. Pursuant to Rule 8.2 of the Takeovers Code, within 21 days of the date of this joint announcement, the Composite Document containing, among other things, (i) the terms and conditions of the Offers, (ii) a letter of recommendation from the Independent Board Committee to CMD Shareholders and Optionholders in relation to the Offers, and (iii) a letter of advice from the independent financial adviser to advise the Independent Board Committee in respect of the Offers, together with the forms of acceptance and transfer of the CMD Shares and cancellation of the CMD Options, is required to be despatched to CMD Shareholders and Optionholders. As the making of the Offers is conditional upon SPA Completion, it is expected that an application will be made to the Executive under Note 2 to Rule 8.2 of the Takeovers Code for his consent to extend the date of despatching of the Composite Document to a date falling within seven days of SPA Completion or such other date as the Executive may approve. Further announcement(s) will be made by Mengniu and CMD on the timing of the despatch of the Composite Document.



Further announcement will be made when the Composite Document together with the form of acceptance and transfer in respect of the Offers and cancellation of the CMD Options are despatched.

### **Major Transaction Circular and Notice of EGM**

A circular containing, among other things, (i) further details of the SPA and the possible Offers and (ii) a notice of the EGM, is expected to be despatched to the Mengniu Shareholders on or before 31 January 2017 in accordance with the Listing Rules.

### **DISCLOSURE OF DEALINGS**

In accordance with Rule 3.8 of the Takeovers Code, associates (as defined under the Takeovers Code and including a person who owns or controls 5% or more of any class of relevant securities) of Mengniu and CMD are hereby reminded to disclose their dealings in any securities of CMD pursuant to the Takeovers Code.

For this purpose, the full text of Note 11 to Rule 22 of the Takeovers Code is reproduced as follows:

*“Responsibilities of stockbrokers, banks and other intermediaries*

*Stockbrokers, banks and others who deal in relevant securities on behalf of clients have a general duty to ensure, so far as they are able, that those clients are aware of the disclosure obligations attaching to associates and other persons under Rule 22 and that those clients are willing to comply with them. Principal traders and dealers who deal directly with investors should, in appropriate cases, likewise draw attention to the relevant Rules. However, this does not apply when the total value of dealings (excluding stamp duty and commission) in any relevant security undertaken for a client during any 7 day period is less than HK\$1 million.*

*This dispensation does not alter the obligation of principals, associates and other persons themselves to initiate disclosure of their own dealings, whatever total value is involved.*

*Intermediaries are expected to co-operate with the Executive in its dealings enquiries. Therefore, those who deal in relevant securities should appreciate that stockbrokers and other intermediaries will supply the Executive with relevant information as to those dealings, including identities of clients, as part of that co-operation.”*

## DEFINITIONS

In this joint announcement, unless the context otherwise requires, the following expressions have the following meanings:

|                                |   |
|--------------------------------|---|
| “associate(s)”                 | has the meaning ascribed thereto under the Takeovers Code   |
| “Business Day”                 | means a day other than a Saturday or Sunday or public holiday in Hong Kong  |
| “Cayman Islands Companies Law” | the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands  |
| “CMD”                          | China Modern Dairy Holdings Ltd., a company incorporated in the Cayman Islands with limited liability, the issued CMD Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1117) |
| “CMD Board”                    | the board of directors of CMD   |
| “CMD Directors”                | the directors of CMD  |
| “CMD Group”                    | CMD and its subsidiaries  |
| “CMD Option(s)”                | outstanding share option(s) granted by CMD pursuant to the Management Option Scheme, Share Option Scheme I, Share Option Scheme II and Share Option Scheme III  |
| “CMD Shares”                   | ordinary share(s) of par value HK\$0.10 each in the share capital of CMD  |
| “CMD Shareholder(s)”           | holder(s) of the CMD Share(s)   |
| “Composite Document”           | the composite offer document and offeree board circular in respect of the Offers to be despatched to the CMD Shareholders and Optionholders   |
| “Concert Parties”              | with respect to a party, parties acting in concert with it as such term is defined under the Takeovers Code   |
| “Conditions”                   | conditions to SPA Completion, further details of which are set out in the paragraph headed “Conditions to the SPA” under the section headed “Sale and Purchase Agreement” of this joint announcement        |
| “connected person”             | has the meaning ascribed to it in the Listing Rules   |

|                               |  |
|-------------------------------|--|
| “Consideration”               | HK\$1,873,003,555, payable in US\$, which is equivalent to US\$241,475,350 or HK\$1.94 per Subject Share, which is equivalent to US\$0.25 per Subject Share, as determined by the Exchange Rate  |
| “DBS”                         | DBS Asia Capital Limited, an institution licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong), the joint financial adviser to Mengniu in relation to the Offers                                 |
| “EGM”                         | extraordinary general meeting of Mengniu to be held for the purpose of enabling Mengniu Shareholders to consider and vote to approve the Transaction   |
| “Exchange Rate”               | US\$1:HK\$7.7565, being the closing mid-point HK\$ to US\$ “bank buy” and “bank sell” exchange rate announced by the Hong Kong and Shanghai Banking Corporation Limited on the date immediately preceding the date of the SPA  |
| “Executive”                   | the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director  |
| “Existing CMD Shares”         | 477,429,132 CMD Shares held by Success Dairy II as at the date of this announcement  |
| “HK\$”                        | Hong Kong dollars, the lawful currency of Hong Kong  |
| “Hong Kong”                   | Hong Kong Special Administrative Region of the PRC   |
| “Independent Board Committee” | the independent board committee of CMD comprising all the non-executive CMD Directors who have no direct or indirect interest in the Offers other than the holding of the CMD Options to advise and give recommendation to the CMD Shareholders and the Optionholders and in respect of the Offers and as to acceptance of the Offers  |
| “Investor Option”             | the option granted by CMD to Success Dairy II pursuant to which Success Dairy II shall have the right, but not an obligation, to request CMD to issue up to 488,036,618 CMD Shares (being the New CMD Shares) and to pay a cash top-up amount of US\$13,424,231 which remains to be payable by CMD to Success Dairy II to terminate certain valuation adjustment arrangement |
| “Last Trading Day”            | 3 January 2017, being the last full trading day immediately prior to the date of this joint announcement   |

|                              |  |
|------------------------------|--|
| “Listing Rules”              | the Rules Governing the Listing of Securities on the Stock Exchange  |
| “Long Stop Date”             | 15 March 2017, or such other date as the parties to the SPA may agree in writing   |
| “Main Board”                 | the Main Board of the Stock Exchange   |
| “Management Option Scheme”   | the share option scheme adopted by CMD on 31 October 2010  |
| “Mengniu”                    | 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)   |
| “Mengniu Director(s)”        | director(s) of Mengniu   |
| “Mengniu Group”              | Mengniu and its subsidiaries   |
| “Mengniu Share(s)”           | ordinary share(s) of par value HK\$0.10 each in the share capital of Mengniu   |
| “Mengniu Shareholder(s)”     | holder(s) of the Mengniu Share(s)  |
| “New CMD Shares”             | 488,036,618 CMD Shares to be issued by CMD to Success Dairy II prior to the SPA Completion Date pursuant to the supplemental deed to the share and purchase agreement dated 6 July 2015, entered into, amongst others, between Success Dairy II and CMD as mentioned in the announcement of CMD dated 12 December 2016 |
| “Non-Accepting Shareholders” | the Individuals and the CMD Shareholders who (whether by themselves or through their authorized representative) have unconditionally and irrevocably confirmed and undertaken to Mengniu and CMD that they will not accept the Share Offer   |
| “Offer Price”                | HK\$1.94 or US\$0.25 per Offer Share   |
| “Offer Share(s)”             | all the CMD Share(s) in issue and any CMD Share(s) duly issued while the Offers remain open for acceptance, other than already owned or agreed to be acquired by Mengniu and its Concert Parties, which are subject to the Offers  |
| “Offers”                     | the Share Offer and the Option Offer   |
| “Optionholders”              | the holders of the CMD Options   |

|  |   |
|--|---|
| “Option Offer”                         | the proposal to be made by the Offeror in compliance with Rule 13 of the Takeovers Code to cancel all the outstanding CMD Options in accordance with the terms and conditions set out in this joint announcement and in the Composite Document                          |
| “Option Schemes”                       | collectively, Management Option Scheme, Share Option Scheme I, Share Option Scheme II and Share Option Scheme III   |
| “PRC”                                  | the People’s Republic of China, (excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan for the purpose of this joint announcement)  |
| “Sale and Purchase Agreement” or “SPA” | the conditional sale and purchase agreement entered into between Success Dairy II and Mengniu dated 4 January 2017 in respect of the acquisition of the Subject Shares  |
| “SFC”                                  | the Securities and Futures Commission of Hong Kong  |
| “Share Offer”                          | the possible conditional mandatory cash offer to be made by UBS and DBS, for and on behalf of Mengniu for all the issued CMD Shares (other than those already owned or agreed to be acquired by Mengniu and its Concert Parties) in accordance with the Takeovers Code  |
| “Share Option Scheme I”                | the share option scheme adopted by CMD on 17 November 2011  |
| “Share Option Scheme II”               | the share option scheme adopted by CMD on 5 June 2014   |
| “Share Option Scheme III”              | the share option scheme adopted by CMD on 30 September 2016   |
| “SPA Completion”                       | completion of the sale and purchase of the Subject Shares in accordance with the SPA  |
| “SPA Completion Date”                  | the date which is two (2) Business Days after the date on which the last of the Conditions to be satisfied or waived is satisfied or waived (such date not being later than the Long Stop Date), or such other date as may be agreed in writing between Mengniu and CMD |
| “Stock Exchange” or “SEHK”             | The Stock Exchange of Hong Kong Limited   |
| “Subject Shares”                       | 965,465,750 CMD Shares, comprising the Existing CMD Shares and New CMD Shares   |

|                          |  |
|--------------------------|--|
| “Success Dairy II”       | Success Dairy II Limited, an exempt company organized under the laws of the Cayman Islands (registered no. 281050) whose registered office is at Maple Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands  |
| “Supplemental Deed”      | the supplemental deed to the share and purchase agreement dated 6 July 2015, entered into, amongst others, between Success Dairy II and CMD as mentioned in the announcement of CMD dated 12 December 2016   |
| “Takeovers Code”         | the Code on Takeovers and Mergers published by the SFC   |
| “Transaction”            | the transactions contemplated by the Transaction Documents   |
| “Transaction Documents”  | the SPA, this joint announcement, the Composite Document and all of the agreed form documents and all other documents entered into on or after the date of the SPA which, in each case, is entered into pursuant to the SPA and/or any of the agreed form documents relating to the Transaction  |
| “Third Party Rights”     | any interest or equity of any person (including any right to acquire, option or right of pre-emption or conversion) or any mortgage, charge, pledge, lien, assignment, hypothecation, security interest, title retention or any other security agreement or arrangement, or any agreement to create any of the above   |
| “UBS”                    | UBS AG, acting through its Hong Kong branch, an institution licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong), the financial adviser to Mengniu in relation to the Transaction |
| “US\$” or “U.S. dollars” | United States dollars, the lawful currency of the United States of America   |

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

By order of the board of directors of  
**China Modern Dairy Holdings Ltd.**  
**Gao Lina**  
*Deputy Chairman, Chief Executive Officer*  
*and Executive Director*

Hong Kong, 4 January 2017



*As at the date of this joint announcement, the Mengniu Directors are 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.*

*As at the date of this joint announcement, the CMD Directors are Ms. GAO Lina and Mr. HAN Chunlin as executive directors, Mr. YU Xubo, Mr. WOLHARDT Julian Juul, Mr. HUI Chi Kin Max, Mr. ZHANG Ping and Mr. SUN Yugang as non-executive directors, Mr. LI Shengli, Mr. LEE Kong Wai Conway, Mr. KANG Yan and Mr. ZOU Fei as independent non-executive directors.*

*The Mengniu Directors jointly and severally accept full responsibility for the accuracy of the information contained in this joint announcement (other than that relating to Success Dairy II and the CMD Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this joint announcement (other than those expressed by Success Dairy II and the CMD Group) have been arrived at after due and careful consideration and there are no other facts not contained in this joint announcement the omission of which would make any statements in this joint announcement misleading.*

*The CMD Directors jointly and severally accept full responsibility for the accuracy of the information contained in this joint announcement (other than that relating to the Mengniu Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this joint announcement (other than those expressed by Mengniu) have been arrived at after due and careful consideration and there are no other facts not contained in this joint announcement, the omission of which would make any statements in this joint announcement misleading.*

*\* for identification purpose only*