

This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

DISCLOSEABLE AND CONNECTED TRANSACTION ISSUE OF NEW SHARES

The Company wishes to announce that after the trading session on 8 April 2008, it entered into the Equity Interest Transfer Agreement with the Sellers, pursuant to which the Company has conditionally agreed to acquire the Sale Shares, representing approximately 8.97% of the equity interest in Inner Mongolia Mengniu, and in exchange, the Company has agreed to allot and issue the Consideration Shares to the Sellers, representing approximately 9.49% of the issued share capital of the Company as at the date of this announcement and approximately 8.67% of the enlarged issued share capital of the Company (as enlarged by the Consideration Shares).

As each of the appropriate Relevant Ratio is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and as some of the Sellers are connected persons of the Company, the Acquisition also constitutes a connected transaction of the Company and hence, is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. Niu Gensheng and his associates, Jinniu and Yinniu, and the other Founding Individuals will abstain from voting at the extraordinary general meeting of the Company in respect of approving the Acquisition and the issue of Consideration Shares.

An Independent Board Committee will be established to advise the Independent Shareholders on the Acquisition. A circular containing, amongst other things, details of the Acquisition, a letter from the independent financial adviser of the Company advising the Independent Board Committee, a letter from the Independent Board Committee to the Independent Shareholders expressing its view on the Acquisition (after taking into account the advice from the independent financial adviser of the Company), a notice convening the extraordinary general meeting to consider and approve the Acquisition, will be dispatched to the Shareholders in accordance with relevant requirements of the Listing Rules.

EQUITY INTEREST TRANSFER AGREEMENT DATED 8 APRIL 2008

Sellers

- (i) Niu Gensheng, an executive Director, a Founding Individual and a shareholder of the Company, a connected person
- (ii) Deng Jiuqiang, a director of Inner Mongolia Mengniu and a Founding Individual, a connected person

- (iii) Yang Wenjun, an executive Director, the chief executive officer and a director of Inner Mongolia Mengniu and a Founding Individual, a connected person
- (iv) Sun Yubin, an executive Director, a director of Inner Mongolia Mengniu and a Founding Individual, a connected person
- (v) Lu Jun, a former non-executive Director within the preceding 12 months of this announcement (whose resignation was effective on 1 January 2008) and a Founding Individual, a connected person
- (vi) Sun Xianhong, a supervisor of Inner Mongolia Mengniu and a Founding Individual, a connected person
- (vii) Wang Fuzhu, a supervisor of Inner Mongolia Mengniu
- (viii) Bai Jun, the chairman of the supervisory board and the labour union of Inner Mongolia Mengniu
- (ix) Bai Ying, a vice-president and the general manager of milk supply department of Inner Mongolia Mengniu, and a director of several subsidiaries of the Company, a connected person
- (x) Hou Jiangbin, a Founding Individual, a connected person
- (xi) Qiu Lianjun, a Founding Individual, a connected person
- (xii) Pang Kaitai, a Founding Individual, a connected person
- (xiii) Chu Xiuli
- (xiv) Li Shurong
- (xv) Liu Xiaoling
- (xvi) Wang Guisheng, an assistant to the president of Inner Mongolia Mengniu
- (xvii) Wang Ai Suo, the deputy officer of the quality control centre of Inner Mongolia Mengniu
- (xviii) Wang Jishan
- (xix) Wang Jianbang, the general manager of the sales department of Inner Mongolia Mengniu in Beijing
- (xx) Jiang Hong
- (xxi) Zheng Wenping
- (xxii) Ren Meicheng
- (xxiii) Inner Mongolia Laoniu Community Welfare Development Association (內蒙古老牛公益事業發展促進會), a non-profit making social organization established in Inner Mongolia, the PRC and under the administration of the civil affairs department of the government of Inner Mongolia Autonomous Region, which engages in charity work in the local community

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, other than Niu Gensheng, Deng Jiuqiang, Yang Wenjun, Sun Yubin, Lu Jun, Sun Xianjong, Bai Ying, Hou Jiangbin, Qiu Lianjun and Pang Kaitai who are connected persons of the Company, all other Sellers and their ultimate beneficial owners are independent third parties of the Company and of each other.

There were no prior transactions between the Company and the Sellers which would require aggregation with the Acquisition under Rule 14.22 and Rule 14A.25 of the Listing Rules.

Purchaser

The Company

Sale Shares

72,011,566 Inner Mongolia Mengniu Shares, representing approximately 8.97% of the equity interest in Inner Mongolia Mengniu

Consideration

The consideration of the Acquisition shall be payable by the Company by the issue and allotment of an aggregate of 135,328,255 Shares to the Sellers (or their nominees as they may direct) within three months after Completion, subject to the listing approval for such Consideration Shares having been obtained, in the following manner:-

Sellers	Sale Shares	Consideration Shares
Niu Gensheng	12,385,665	23,275,850
Deng Jiuqiang	1,465,279	2,753,636
Yang Wenjun	801,485	1,506,196
Sun Yubin	1,329,485	2,498,444
Lu Jun	603,485	1,134,104
Sun Xianhong	594,948	1,118,060
Wang Fuzhu	375,000	704,721
Bai Jun	303,600	570,542
Bai Ying	79,200	148,837
Hou Jiangbin	5,027,157	9,447,321
Qiu Lianjun	4,789,938	9,001,526
Pang Kaitai	1,188,000	2,232,558
Chu Xiuli	1,161,000	2,181,818
Li Shurong	1,080,000	2,029,598
Liu Xiaoling	1,080,000	2,029,598

Wang Guisheng	844,800	1,587,596
Wang Ai Suo	1,214,400	2,282,170
Wang Jishan	1,568,160	2,946,976
Wang Jianbang	360,000	676,533
Jiang Hong	270,000	507,399
Zheng Wenping	5,265,000	9,894,289
Ren Meicheng	1,339,194	2,516,690
Inner Mongolia Laoni Community Welfare Development Association	28,885,770	54,283,792
Total	72,011,566	135,328,255

The Consideration Shares represent approximately 9.49% of the issued share capital of the Company as at the date of this announcement and represent approximately 8.67% of the enlarged issued share capital of the Company (as enlarged by the Consideration Shares). The Consideration Shares will rank pari passu in all respects with the existing shares in issue. The Consideration Shares will be issued (i) only after the Stock Exchange has granted the approval for listing of such Shares and (ii) under the specific mandate to be granted to the Directors at the forthcoming extraordinary general meeting of the Company. The Consideration Shares will be issued with no encumbrances and no restrictions on transfer and disposal after Completion.

Based on the trading price of the Shares in the previous 60 trading days average price of HK\$21.48 per Share as quoted on the Stock Exchange from 4 January 2008 to 2 April 2008 inclusive, the consideration for the Equity Interest Transfer Agreement amounted to approximately HK\$2,906,850,900. The number of Consideration Shares has been determined after arm's length negotiations between the Company and the Sellers with reference to their respective shareholding of approximately 8.97% in Inner Mongolia Mengniu and the historical profit contribution of Inner Mongolia Mengniu to the Group of approximately 89.2%.

Conditions

Completion is conditional upon:-

- (i) approval of the Acquisition from the relevant PRC governmental authorities being obtained;
- (ii) approval by the Independent Shareholders of, inter alia, the transactions under the Equity Transfer Agreement being obtained; and
- (iii) the Listing Committee of the Stock Exchange granting listings of, and permission to deal in, the Consideration Shares.

There is no long stop date in the Equity Interest Transfer Agreement. The Directors currently expect that Completion will take place in the third quarter of 2008.

Application will be made to the Stock Exchange for listings of, and permission to deal in, the Consideration Shares in due course.

SHAREHOLDING STRUCTURE

Shareholders	Before Acquisition (as at date of this announcement)		Immediately after Completion		Immediately after Completion and full exercise of share options (Note 4)	
	No. of Shares held	Percentage of shareholding (approximate)	No. of Shares held	Percentage of shareholding (approximate)	No. of Shares held	Percentage of shareholding (approximate)
Yinniu	176,104,130	12.35%	176,104,130	11.28%	176,104,130	10.92%
Jinniu	137,395,836	9.63%	137,395,836	8.80%	137,395,836	8.52%
Niu Gensheng	45,505,172	3.19%	68,781,022	4.40%	68,781,022	4.27%
Sellers (Note 1)	-	-	57,768,613	3.70%	68,042,613	4.22%
Inner Mongolia Laoni Community Welfare Development Association (Note 2)	-	-	54,283,792	3.48%	54,283,792	3.37%
Other Shareholders (Note 3)	1,067,133,617	74.83%	1,067,133,617	68.34%	1,107,598,248	68.70%
Total	1,426,138,755	100%	1,561,467,010	100%	1,612,205,641	100%

Note (1): Excluding Niu Gensheng and Inner Mongolia Laoni Community Welfare Development Association

Note (2): Inner Mongolia Laoni Community Welfare Development Association is a non-profit making social organization established in Inner Mongolia, the PRC and under the administration of the civil affairs department of the government of Inner Mongolia Autonomous Region, which engages in charity work in the local community and such shareholding counts towards the public float.

Note (3): Including grantees of the share options under the share option scheme of the Company and other public shareholders. As at the date of this announcement, 8,487,337 share options (representing approximately 0.53% of the Company's issued share capital upon full exercise of share options and Completion) have been granted to connected persons of the Company under the Company's share option scheme and such share options remain outstanding.

Note (4): other than the share options granted under the share option scheme of the Company, there are no outstanding convertible instruments issued by the Company as at the date of this announcement. As at the date of this announcement, 50,738,631 share options have been granted under the Company's share option scheme and were outstanding, amongst which, 10,274,000 share options were granted to the Sellers.

INFORMATION OF INNER MONGOLIA MENGNIU

The following table sets out the audited financial information for the two years ended 31 December 2006 and the unaudited financial information for the six months ended 30 June 2007 of Inner Mongolia Mengniu prepared in accordance with the PRC GAPP:

	For the year ended 31 December		For the six months ended 30 June
	2005 (‘000 RMB)	2006 (‘000 RMB)	2007 (‘000 RMB) unaudited
Turnover	10,824,950 (equivalent to approximately HK\$12,042,757)	16,246,368 (equivalent to approximately HK\$18,074,084)	9,949,574 (equivalent to approximately HK\$11,068,901)
Profit before taxation	626,654 (equivalent to approximately HK\$697,153)	913,543 (equivalent to approximately HK\$1,016,317)	603,566 (equivalent to approximately HK\$671,467)
Profit after taxation	565,042 (equivalent to approximately HK\$628,609)	837,511 (equivalent to approximately HK\$931,731)	508,402 (equivalent to approximately HK\$565,597)

The audited net assets value of Inner Mongolia Mengniu was approximately RMB 3,769,299,000 (equivalent to approximately HK\$4,193,345,000) as at 31 December 2006, and accordingly, the net assets value of the Sale Shares, representing approximately 8.97% of the entire equity interest of Inner Mongolia Mengniu, is RMB338,106,000 (equivalent to approximately HK\$376,143,000). The unaudited net assets value of Inner Mongolia Mengniu was approximately RMB 4,563,139,000 (equivalent to approximately HK\$ 5,076,492,000) as at 31 December 2007.

Net profits (before and after taxation and extraordinary items) attributable to the Sale Shares are respectively approximately RMB81,945,000 and RMB75,125,000 (equivalent to approximately HK\$91,164,000 and HK\$83,577,000) for the year ended 31 December 2006. The unaudited net profits (before and after taxation and extraordinary items) attributable to the Sale Shares are respectively approximately RMB54,140,000 and RMB45,604,000 (equivalent to approximately HK\$60,231,000 and HK\$50,734,000) for the six months ended 30 June 2007.

REASONS FOR THE ACQUISITION

The Group is one of the leading dairy product manufacturers in the PRC and is principally engaged in the manufacture and distribution of quality dairy products.

Inner Mongolia Mengniu, the main operating subsidiary of the Company is a non-wholly owned subsidiary of the Company which is owned indirectly as to approximately 84.32% as at the date of this announcement. After the Acquisition, the Company's interest in Inner Mongolia Mengniu will increase to 93.29%. The Directors consider that the increased stake in Inner Mongolia Mengniu will offer the Company an opportunity to enhance the Group's strategic development and competitiveness in dairy industry for better economies of scale, thus expanding the Group's market share.

Furthermore, as the consideration of the Acquisition involves the issue and allotment of Consideration Shares to the Sellers (some of whom are the senior management staff of the Group), it indicates the management's continuous support to, and confidence on the growth of the Company's business.

The Directors (excluding the independent non-executive Directors) believe that the terms of the Acquisition are fair and reasonable and in the interest of the Shareholders as a whole. The view of the Independent Board Committee on the Acquisition will be contained in the circular of the Company be dispatched to the Shareholders in accordance with relevant requirements of the Listing Rules.

DISCLOSEABLE AND CONNECTED TRANSACTION

As each of the appropriate Relevant Ratio is more than 5% but less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. As Niu Gensheng, Deng Jiuqiang, Yang Wenjun, Sun Yubin, Lu Jun, Sun Xianjong, Bai Ying, Hou Jiangbin, Qiu Lianjun and Pang Kaitai are connected persons of the Company, the Acquisition also constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Niu Gensheng and his associates, Jinniu and Yinniu, and the other Founding Individuals will abstain from voting at the extraordinary general meeting of the Company in respect of approving the Acquisition and the issue of Consideration Shares.

An Independent Board Committee will be established to advise the Independent Shareholders on the Acquisition. A circular containing, amongst other things, details of the Acquisition, a letter from the independent financial adviser of the Company advising the Independent Board Committee, a letter from the Independent Board Committee to the Independent Shareholders expressing its view on the Acquisition (after taking into account the advice from the independent financial adviser of the Company), a notice convening the extraordinary general meeting to consider and approve the Acquisition, will be dispatched to the Shareholders in accordance with relevant requirements of the Listing Rules.

DEFINITIONS

"Acquisition"	the Acquisition of the Sale Shares from the Sellers pursuant to and in accordance with the terms and conditions of the Equity Interest Transfer Agreement
"Board"	the board of Directors
"Company"	China Mengniu Dairy Company Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
"Completion"	completion of the Equity Interest Transfer Agreement

“connected person”	has the meaning ascribed thereto under the Listing Rules
“Consideration Shares”	an aggregate of 135,328,255 Shares to be issued and allotted to the Sellers as consideration of the Acquisition in the manner set out in the paragraph headed “Consideration” of this announcement
“Directors”	the directors of the Company
“Equity Interest Transfer Agreement”	the conditional equity interest transfer agreement entered into amongst the Sellers and the Company dated 8 April 2008
“Founding Individuals”	Niu Gensheng, Deng Jiuqiang, Hou Jiangbin, Sun Yunbin, Qiu Liangjun, Yang Wenjun, Pang Kaitai, Lu Jun, Sun Xianhong and Xie Qiuxu, who are all PRC nationals and are the individuals who together founded Inner Mongolia Mengniu; they together as a group are the controlling shareholders of the Company
“Group”	the Company and its Subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Independent Board Committee”	A committee comprising all independent non-executive Directors of the Company which advises the Independent Shareholders on the Acquisition
“Independent Shareholders”	Shareholders of the Company, excluding Jinniu, Yinniu and the Founding Individuals
“independent third party”	a third party who is independent of and not connected with the Company and its connected persons
“Inner Mongolia Mengniu”	Inner Mongolia Mengniu Dairy Company Limited (內蒙古蒙牛乳業(集團)股份有限公司), a subsidiary of the Company which is owned indirectly as to approximately 84.32% as at the date of this announcement
“Inner Mongolia Mengniu Share(s)”	share(s) of Inner Mongolia Mengniu of par value of RMB1.00 each
“Jinniu”	Jinniu Milk Industry Limited, a company incorporated in the British Virgin Islands and a Shareholder
“Listing Rules”	the Rules Governing the Listing of Securities on Stock Exchange
“PRC”	The People's Republic of China
“PRC GAAP”	generally accepted accounting principles in the People’s Republic of China
“Relevant Ratios”	any of the five ratios (other than the profits ratio in the case of connected transactions) as set out in Rule 14.07 of the Listing Rules
“RMB”	Renminbi, the lawful currency of the PRC

“Sale Shares”	the aggregate of 72,011,566 Inner Mongolia Mengniu Shares which are to be transferred by Sellers to the Company pursuant to the Equity Interest Transfer Agreement
“Sellers”	The 22 selling individuals listed (i) to (xxii) under the heading “Sellers” in this announcement and Inner Mongolia Laoni Community Welfare Development Association
“Shares”	ordinary shares of the Company of par value of HK\$ 0.1 each
"Shareholder(s)"	holder(s) of Shares
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
“Yinniu”	Yinniu Milk Industry Limited, a company incorporated in the British Virgin Island and a Shareholder
"%"	per cent

For the purpose of this announcement, unless otherwise indicated, exchange rates of RMB1.00 = HK\$1.1125 have been used for currency conversion purposes. This is for the purpose of illustration only and does not constitute a representation that any amounts in HK\$ or RMB have been, could have been or may be converted at such rates or any other exchange rates or at all.

By order of the Board
Niu Gensheng
Hong Kong, 8 April 2008

As at the date of this announcement, the executive directors are Mr. Niu Gensheng, Mr. Yang Wenjun and Mr. Sun Yubin. The non-executive directors are Mr. Jiao Shuge (alias Jiao Zhen) and Mr. Julian Juul Wolhardt. The independent non-executive directors are Mr. Wang Huaibao, Mr. Zhang Julin and Mr. Li Jianxin.

** for identification purposes only*