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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)

**(1) PROPOSED SUBSCRIPTION FOR NEW SHARES IN CHINA MENGNIU DAIRY
COMPANY LIMITED CONSTITUTING A CONNECTED TRANSACTION;**

AND

(2) APPLICATION FOR WHITEWASH WAIVER

Financial Adviser to the Company

Deutsche Bank 

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**

 **SOMERLEY CAPITAL LIMITED**

SUBSCRIPTION FOR NEW SHARES

The Board is pleased to announce that on February 12, 2014, Danone Asia, COFCO Dairy Investments and the Company entered into the Subscription Agreement, pursuant to which the Company conditionally agreed to issue and allot 121,236,357 Shares (representing approximately 6.2% of the entire issued share capital of the Company as enlarged by the issue of the Subscription Shares) to COFCO Dairy Investments, a joint venture company which upon Subscription Completion will be beneficially owned as to approximately 31.4% by Danone Asia, approximately 51.7% by COFCO (HK) (of which approximately (i) 39.5% will be held through COFCO (HK)'s interests in COFCO Dairy Holdings and (ii) 12.2% will be held through COFCO (HK)'s interests in Colour Spring) and approximately 16.9% by Arla Foods (which will be held through Arla Foods's interest in COFCO Dairy Holdings). Following the

Subscription Completion, Danone Asia's effective interest in the Company will increase to approximately 9.9%.

The Subscription Price is HK\$42.50 per Subscription Share (which represents a premium of approximately 15.3% to the closing price of HK\$36.85 per Share as quoted on the Stock Exchange on the Last Trading Day). The total consideration of approximately HK\$5,153 million will be payable to the Company in cash and will be financed in full by Danone Asia.

The issuance of the Subscription Shares is subject to approval by the Independent Shareholders. An ordinary resolution will be proposed at the EGM to seek, among other things, a Specific Mandate to issue the Subscription Shares pursuant to the Subscription Agreement.

To ensure that Danone Asia's aggregate effective interest in the Company is held through a single holding vehicle, that is, COFCO Dairy Investments, a Share Restructuring and Subscription Agreement was also entered into on the same date among COFCO Dairy Investments, Prominent Achiever (a joint venture company between COFCO (HK) and Danone Asia) and the shareholders of Prominent Achiever, pursuant to which it was agreed that 100% of the issued share capital of Prominent Achiever (which owns, controls and has directions over approximately 8.1% of the issued share capital of the Company) be transferred to COFCO Dairy Investments.

Completion of the Subscription Agreement and the Share Restructuring and Subscription Agreement shall take place simultaneously and be inter-conditional.

LISTING RULES IMPLICATIONS

COFCO Dairy Investments is a substantial Shareholder and is therefore a connected person of the Company. Accordingly, the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, and Independent Shareholders' approval requirements under the Listing Rules. Any member of the Concert Group and its associates and any other Shareholders who are involved or interested in the Share Restructuring, the Subscription and/or the Whitewash Waiver shall abstain from voting at the EGM in respect of the resolution(s) approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

WHITEWASH WAIVER

As at the date of the Subscription Agreement, COFCO (HK), Arla Foods and Danone Asia, and parties acting in concert with any of them (being the Concert Group) indirectly owns, controls and has directions over in aggregate 496,014,022 Shares, representing approximately 27.0% of the voting rights of the Company. Upon the Subscription Completion, 121,236,357 Subscription Shares will be issued to COFCO Dairy Investments, and as a result, the interests of the Concert Group in the voting rights of the Company will be increased from approximately 27.0% to approximately 31.5% (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement and up to the Subscription Completion). Accordingly, the Concert Group would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by it and any parties acting in

concert with it pursuant to Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is obtained from the Executive.

An application to the Executive for the Whitewash Waiver in respect of the issue of the Subscription Shares will be made on behalf of the Concert Group. The Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the EGM by way of poll. Any member of the Concert Group, its associates and any other Shareholders who are involved or interested in the Share Restructuring, the Subscription and/or the Whitewash Waiver shall abstain from voting at the EGM in respect of the resolution(s) approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

GENERAL

The Independent Board Committee has been formed to advise the Independent Shareholders on the terms of the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver. None of the members of the Independent Board Committee has any interest or involvement in the transactions contemplated under the Subscription Agreement or the Whitewash Waiver. The Company has, with the approval of the Independent Board Committee, appointed Somerley Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder as well as the Whitewash Waiver.

The EGM will be held to consider and, if thought fit, pass the resolutions to approve, among other things: (i) the execution, delivery and performance of the Subscription Agreement; (ii) the grant of the Specific Mandate; (iii) the allotment and issue of the Subscription Shares in accordance with the Subscription Agreement, and (iv) the Whitewash Waiver. The voting in relation to the Subscription, the Specific Mandate and the Whitewash Waiver at the EGM will be conducted by way of a poll whereby any member of the Concert Group, its associates and any other Shareholders who are interested or involved in the Subscription and the Whitewash Waiver shall abstain from voting on the relevant ordinary resolutions to be proposed at the EGM to approve the Subscription, the Specific Mandate and the Whitewash Waiver.

A circular containing, among other things, details of the Subscription, the Specific Mandate and the Whitewash Waiver, together with the recommendation of the Independent Board Committee to the Independent Shareholders, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription, the Specific Mandate and the Whitewash Waiver, and the notice of EGM is expected to be despatched by the Company to the Shareholders on or before March 5, 2014.

The Transactions are subject to the satisfaction (or, if applicable, waiver) of a number of conditions as set out in this announcement and, accordingly, the Transactions may or may not proceed and are possibilities only. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional adviser.

INTRODUCTION

The Board is pleased to announce that on February 12, 2014, Danone Asia, COFCO Dairy Investments and the Company entered into the Subscription Agreement, pursuant to which the Company conditionally agreed to issue and allot 121,236,357 Shares (representing approximately 6.2% of the entire issued share capital of the Company as enlarged by the issue of the Subscription Shares) to COFCO Dairy Investments, a joint venture company which upon Subscription Completion will be beneficially owned as to approximately 31.4% by Danone Asia, approximately 51.7% by COFCO (HK) (of which approximately (i) 39.5% will be held through COFCO (HK)'s interests in COFCO Dairy Holdings and (ii) 12.2 % will be held through COFCO (HK)'s interests in Colour Spring) and approximately 16.9% by Arla Foods (which will be held through Arla Foods's interest in COFCO Dairy Holdings). Following the Subscription Completion, Danone Asia's effective interest in the Company will be approximately 9.9%.

The Subscription Price is HK\$42.50 per Subscription Share (which represents a premium of approximately 15.3% to the closing price of HK\$36.85 per Share as quoted on the Stock Exchange on the Last Trading Day). The total consideration of approximately HK\$5,153 million will be payable to the Company in cash and will be financed in full by Danone Asia.

The issuance of the Subscription Shares is subject to approval by the Independent Shareholders. An ordinary resolution will be proposed at the EGM to seek, among other things, a Specific Mandate to issue the Subscription Shares pursuant to the Subscription Agreement.

To ensure that Danone Asia's aggregate effective interest in the Company is held through a single holding vehicle, that is, COFCO Dairy Investments, a Share Restructuring and Subscription Agreement was also entered into on the same date among COFCO Dairy Investments, Prominent Achiever (a joint venture company between COFCO (HK) and Danone Asia) and the shareholders of Prominent Achiever, pursuant to which it was agreed that 100% of the issued share capital of Prominent Achiever (which owns, controls and has direction over approximately 8.1% of the issued share capital of the Company) be transferred to COFCO Dairy Investments.

Completion of the Subscription Agreement and the Share Restructuring and Subscription Agreement shall take place simultaneously and be inter-conditional.

THE SUBSCRIPTION AGREEMENT

Date: February 12, 2014

Parties:

- (i) the Company;
- (ii) COFCO Dairy Investments; and
- (iii) Danone Asia

The Subscription Shares

Pursuant to the Subscription Agreement, COFCO Dairy Investments has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue and allot, the Subscription Shares at the Subscription Price of HK\$42.50 per Subscription Share, for a total consideration of approximately HK\$5,153 million payable to the Company in cash by Danone Asia.

As at the date of the Subscription Agreement, there were 1,835,967,963 Shares in issue and the Subscription Shares represent approximately 6.6% of the issued share capital of the Company as at the date of the Subscription Agreement and, assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement up to the Subscription Completion, approximately 6.2% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

Subscription Price

The Subscription Price is HK\$42.50 per Subscription Share. The Subscription Price represents:

- (i) a premium of approximately 15.3% to the closing price of HK\$36.85 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 17.6% to the average closing price of HK\$36.13 per Share as quoted on the Stock Exchange for the last five consecutive Trading Days up to and including the Last Trading Day;
- (iii) a premium of approximately 18.9% to the average closing price of HK\$35.73 per Share as quoted on the Stock Exchange for the last 10 consecutive Trading Days up to and including the Last Trading Day;
- (iv) a premium of approximately 16.8% to the average closing price of HK\$36.40 per Share as quoted on the Stock Exchange for the last 30 consecutive Trading Days up to and including the Last Trading Day; and
- (v) a premium of approximately 322.7% to the Group's unaudited consolidated net asset value attributable to the Shareholder per Share as at June 30, 2013 of approximately HK\$10.05 per Share, based on a total of 1,788,265,000 shares as at the date of 30 June 2013.

The Subscription Price was determined after arm's length negotiations between the Company, COFCO Dairy Investments and Danone Asia with reference to, among other factors, the financial position of the Group, the historical trading volume of the Shares on the Stock Exchange and the recent trading prices of the Shares as quoted on the Stock Exchange. The total consideration for the Subscription Shares in the sum of approximately HK\$5,153 million will be financed in full by Danone Asia in the form of an equity injection into COFCO Dairy Investments, as consideration of which, COFCO Dairy Investments will issue to Danone Asia 121,236,357 additional COFCO Dairy Shares, representing approximately 19.7% of the total issued share capital of COFCO Dairy Investments on a fully diluted basis.

Rankings

The Subscription Shares, when issued and fully paid, will rank *pari passu* in all respects among themselves and with all the Shares in issue at the date of allotment and issue of the Subscription Shares, including the right to any dividends or distributions made or declared on or after the date of allotment and issue of the Subscription Shares.

Conditions of the Subscription

The Subscription Completion is conditional upon the following conditions having been fulfilled or validly waived (as the case may be):

- (i) satisfaction or valid waiver (as the case may be) of each of the conditions set forth in the Share Restructuring and Subscription Agreement;
- (ii) approval of the Subscription, the Specific Mandate, the Whitewash Waiver (including the grant thereof by the SFC) and the transactions contemplated therein by, among others, the Independent Shareholders at the EGM, the Stock Exchange and the Executive, in accordance with the requirements of the Stock Exchange, the SFC, the Listing Rules and the Takeovers Code, having been obtained;
- (iii) the Listing Committee of the Stock Exchange granting or agreeing to grant a listing of and permission to deal in the Subscription Shares to be issued (and such listing and permission not being subsequently revoked prior to the Subscription Completion);
- (iv) there not having been any material breach of any of the representations and warranties given by the Company, COFCO Dairy Investments and Danone Asia, respectively under the Subscription Agreement or any of the agreements, covenants and undertakings in the Subscription Agreement that are to be performed or complied with prior to the Subscription Completion;
- (v) there not having occurred from the date of the Subscription Agreement, any event or circumstance which is or is reasonably likely to be, individually or in the aggregate, materially adverse to (i) the business, operations, assets, liabilities (including contingent liabilities), condition (financial, trading or otherwise), financial results or prospects of the Company and its subsidiaries taken as a whole, or (ii) the ability of the Company to consummate the Transactions or perform its material obligations under the Subscription Agreement, other than any event or circumstance arising out of or attributable to (i) any matter which is not within the control of the Company or its subsidiaries and does not affect the Company and its subsidiaries taken as a whole disproportionately when compared to other companies in the dairy industry in China or (ii) the public announcement of the Transactions or the consummation of the Transactions; and
- (vi) the Share Restructuring Completion having taken place simultaneously.

The Subscription Conditions (i), (ii), (iii) and (vi) above cannot be waived in any event. The Subscription Conditions (iv) above may be waived by the party to the Subscription Agreement which is not in breach of the relevant warranty or covenant and the Subscription Condition (v) above may only be waived by Danone Asia. In the event that the Subscription Conditions are not satisfied (or, if applicable, waived) on or prior to the Long Stop Date, the Subscription Agreement will be terminated and no party to the Subscription Agreement shall have any claim against the others for costs, damages, compensation or otherwise except for any antecedent breaches of any obligation under the Subscription Agreement.

Completion of the Subscription

Subject to fulfillment (or, if applicable, waiver) of the Subscription Conditions, the Subscription Completion shall take place on the fifth Business Day of the satisfaction or waiver (where applicable) of the Subscription Conditions or such other date to be agreed by the Company, COFCO Dairy Investments and Danone Asia.

The Subscription Completion and the Share Restructuring Completion shall take place simultaneously and the Subscription Completion shall not take place if the Share Restructuring Completion fails to take place on the Completion Date.

Lock-up

COFCO Dairy Investments has undertaken to the Company that for the period from the date of the Subscription Completion and ending on the date which is three years after the date of the Subscription Completion, without the prior written consent of the Company, COFCO Dairy Investments shall not Sell any of the Subscription Shares.

Specific Mandate

The issuance of the Subscription Shares is subject to approval by the Independent Shareholders. An ordinary resolution will be proposed at the EGM to seek, among other things, a Specific Mandate to issue the Subscription Shares pursuant to the Subscription Agreement.

Application for Listing

An application will be made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

SHARE RESTRUCTURING AND SUBSCRIPTION AGREEMENT

Date: February 12, 2014

Parties:

- (i) COFCO Dairy Investments;
- (ii) Prominent Achiever;
- (iv) Colour Spring, a wholly-owned subsidiary of COFCO (HK); and
- (vi) Danone Asia.

The Share Restructuring and Subscription

Pursuant to the Share Restructuring and Subscription Agreement, (i) Colour Spring conditionally agreed to sell, and COFCO Dairy Investments conditionally agreed to purchase, 75,487,152 shares in Prominent Achiever, representing approximately 51% of the entire issued share capital of Prominent Achiever; and (ii) Danone Asia conditionally agreed to sell, and COFCO Dairy Investments conditionally agreed to purchase 72,526,870 shares in Prominent Achiever, representing approximately 49% of the entire issued share capital of Prominent Achiever.

The Sale Consideration is to be satisfied by the issuance of 75,487,152 and 72,526,870 new COFCO Dairy Shares by COFCO Dairy Investments to Colour Spring and Danone Asia, respectively, at the Share Restructuring Completion.

Conditions of the Share Restructuring and Subscription

The Share Restructuring Completion is subject to and conditional upon the following Share Restructuring Conditions having been fulfilled or validly waived (as the case may be):

- (i) the satisfaction or valid waiver (as the case may be) of each of the conditions set forth in the Subscription Agreement;
- (ii) if Share Restructuring Completion is to take place prior to March 3, 2014, the authorized share capital of COFCO Dairy Investments having been increased to HK\$1,000,000,000, divided into 1,000,000,000 ordinary shares of par value of HK\$1.00 each;
- (iii) the issuance and allotment of 347,599,999 COFCO Dairy Shares to COFCO Dairy Holdings for the purpose of capitalizing the Shareholder's Loan;
- (iv) there not having been any material breach of any of the representations and warranties given by each of COFCO Dairy Investments, Prominent Achiever, Colour Spring and Danone Asia, respectively under the Share Restructuring and Subscription Agreement, or any of the agreements, covenants and undertakings in the Share Restructuring and Subscription Agreement that are to be performed or complied with prior to the Share Restructuring Completion;
- (v) Danone Asia shall have received by electronic means or otherwise, no later than the Share Restructuring Completion, 1 copy of the counterpart to the Amended and Restated Side Letter duly executed by Arla Foods;
- (vi) COFCO (HK) and Danone Asia shall each have received by electronic means or otherwise, no later than the Share Restructuring Completion, 1 copy of the counterpart to the New Concert Party Agreement duly executed by Arla Foods; and
- (vii) the Subscription Completion having taken place simultaneously;

The Share Restructuring Conditions (i), (ii) and (vii) cannot be waived in any event. The Share Restructuring Conditions (iii) above may be waived by the mutual written consent of Colour Spring and Danone Asia and the Share Restructuring Conditions (iv) above may be waived by the party to the Share Restructuring and Subscription Agreement which is not in breach of the relevant warranty or covenant. Further, the Share Restructuring Conditions (v) and (vi) may be waived only by the written consent of Danone Asia and COFCO Dairy Investments, and such waiver shall not be unreasonably withheld by Danone Asia and COFCO Dairy Investments. In the event that the Share Restructuring Conditions are not satisfied (or, if applicable, waived) on or prior to the Long Stop Date, the Share Restructuring and Subscription Agreement will be terminated and no party to the Share Restructuring and Subscription Agreement shall have any claim against the others for costs, damages, compensation or otherwise except for any antecedent breaches of any obligation under the Share Restructuring and Subscription Agreement.

Completion of the Share Restructuring and Subscription

Subject to fulfillment (or, if applicable, waiver) of the Share Restructuring Conditions, the Share Restructuring Completion shall take place simultaneously upon the Subscription Completion and the Share Restructuring Completion shall not take place if the Subscription Completion fails to take place on the Completion Date.

Shareholders' Agreement

In connection with the Share Restructuring and the Subscription, COFCO Dairy Investments, Colour Spring, Danone Asia and COFCO Dairy Holdings will enter into the Shareholders' Agreement. The Shareholders' Agreement will regulate the rights and obligations of Colour Spring, Danone Asia and COFCO Dairy Holdings with respect to COFCO Dairy Investments and will provide for, amongst other things, the board composition of COFCO Dairy Investments, the matters for the approval by the board and the shareholders of COFCO Dairy Investments, and the transfer restrictions of the COFCO Dairy

Shares. The Shareholders' Agreement will become effective upon the Subscription Completion and the Share Restructuring Completion. Further details of the Shareholders' Agreement will be disclosed in the circular to be despatched by the Company to the Shareholders on or before March 5, 2014.

OTHER INFORMATION

Information about the Group

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

Information about COFCO (HK)

COFCO (HK) is a wholly-owned subsidiary of COFCO Corporation which is a state-owned enterprise under the purview of the State-owned Assets Supervision and Administration Commission of the State Council in the PRC. COFCO Corporation engages in a wide array of businesses, including, amongst others, agricultural products trading and processing, food and beverages, in the PRC.

Information about COFCO Dairy Investments

COFCO Dairy Investments is a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of COFCO Dairy Holdings as of the date of this announcement. COFCO Dairy Investments is an investment holding company, which owns, controls and has direction over 347,600,000 Shares representing approximately 18.9% of the issued share capital of the Company as of the date of this announcement.

Information about Colour Spring

Colour Spring is a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Farwill Limited, which in turn is a wholly-owned subsidiary of COFCO (HK). Colour Spring is an investment holding company.

Information about Prominent Achiever

Prominent Achiever is a company incorporated in Hong Kong with limited liability, which is in turn owned as to 51% by Colour Spring and 49% by Danone Asia, a wholly-owned subsidiary of Danone SA. Prominent Achiever is an investment holding company, which owns, controls and has direction over 148,014,022 Shares representing approximately 8.1% of the issue share capital of the Company as of the date of this announcement.

Information about Danone Asia

Danone Asia is a company incorporated under the laws of Singapore and is a wholly-owned subsidiary of Danone SA. Danone SA is an international company present on five continents. The Danone SA group holds top positions in healthy food through four businesses: fresh dairy products, waters, baby nutrition and medical nutrition.

Information about Arla Foods

Arla Foods is a cooperative with limited liability established in Denmark and is principally engaged in the business of manufacturing of dairy products.

Reasons for the Transactions

The dairy industry in China has experienced significant growth in recent years. The market size has nearly doubled from US\$20,698 million in 2008 to US\$40,603 million in 2013, and is expected to continue to grow in the next five years.

In anticipation of this continued growth in the dairy industry, a strategic alliance was formed between Danone Asia and the Company in May 2013 when Danone Asia became a strategic shareholder in the Company after both parties agreed to establish a joint venture to produce and sell chilled yoghurt products in China.

The enhanced collaboration between the Company and Danone Asia on both shareholding and operation level will benefit the Company in securing its leading market position in the dairy industry in China and providing a better position for the Company to capitalize on future opportunities.

The Transactions will:

- further strengthen the existing partnership between the Company and Danone Asia;
- better position the Company to capitalize on future opportunities; and
- provide catalyst for consolidating the key shareholder platform.

In addition, the Transactions will not reduce the liquidity of the Shares of the existing Shareholders, as the number of Shares in the public float will be maintained.

The Directors (excluding the independent non-executive Directors, whose views shall be included in the circular to be dispatched to the Shareholders) are of the view that the terms of the Subscription, which have been negotiated on an arm's length basis in accordance with normal commercial terms, are fair and reasonable and are in the best interest of the Company and the Shareholders as a whole. The proceeds raised from the Subscription will be used to repay the Loan and part of any other indebtedness of the Company. The Directors consider that raising funds through an injection of capital by Danone Asia (an existing strategic partner of the Company) presents a further opportunity for the Company to enhance its relationship with Danone Asia which the Directors believe will be beneficial to the Group given Danone SA's status as a leading international company with top positions in healthy food through four businesses: fresh dairy products, water, baby nutrition and medical nutrition. Moreover, the price at which Danone Asia is increasing its stake in the Company is at a premium of the Company's current market price and is considered to be a better option than an issuance of shares through a rights issue, an open offer or a placement to institutional investors, all of which are customarily undertaken at a discount to the market price.

Use of proceeds from the Subscription

The estimated net proceeds from the issuance of the Subscription Shares, after deduction of expenses, are approximately HK\$5,137 million.

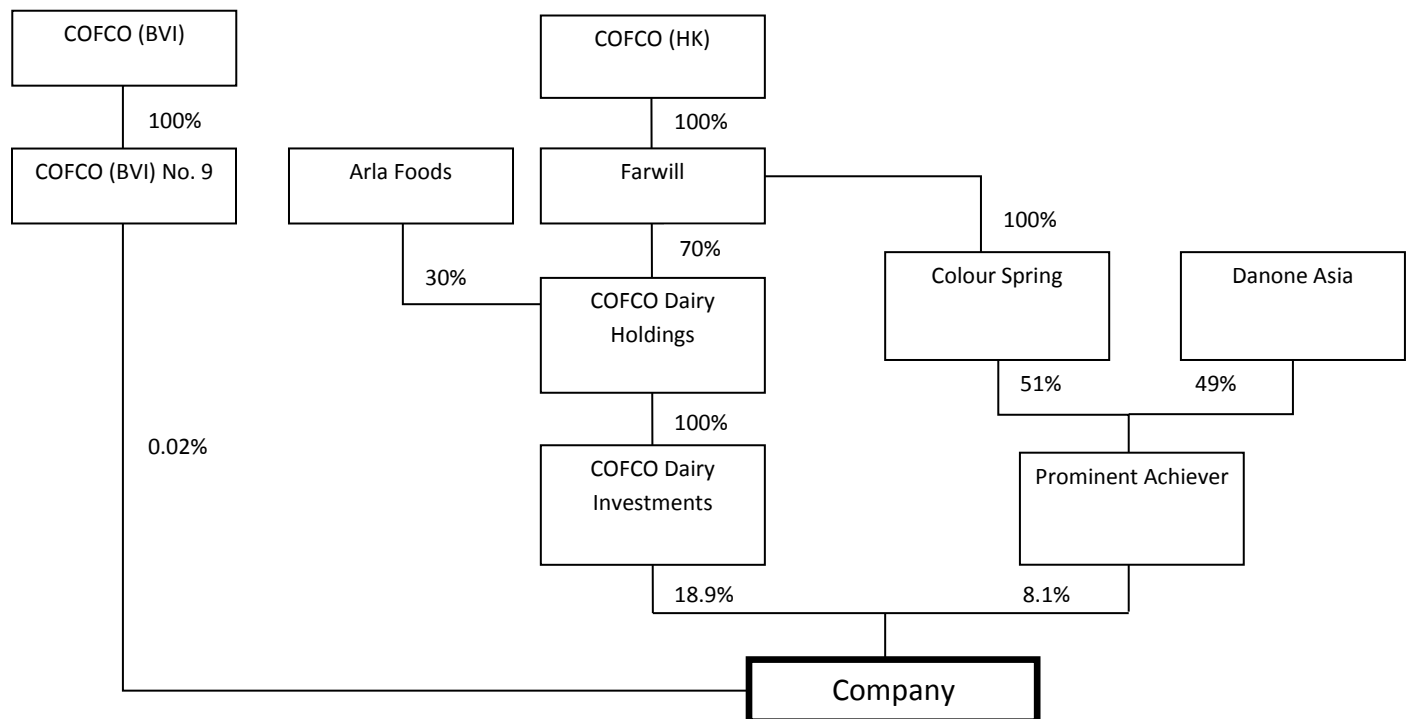
The net proceeds are intended to be applied to repay the Company's indebtedness under the Loan and part of any other indebtedness of the Company. Accordingly, the gearing ratio (calculated as borrowings divided by total assets) of the Group will be reduced. Such reduction in the gearing ratio helps to strengthen the overall financial position of the Group.

EFFECTS OF THE TRANSACTIONS

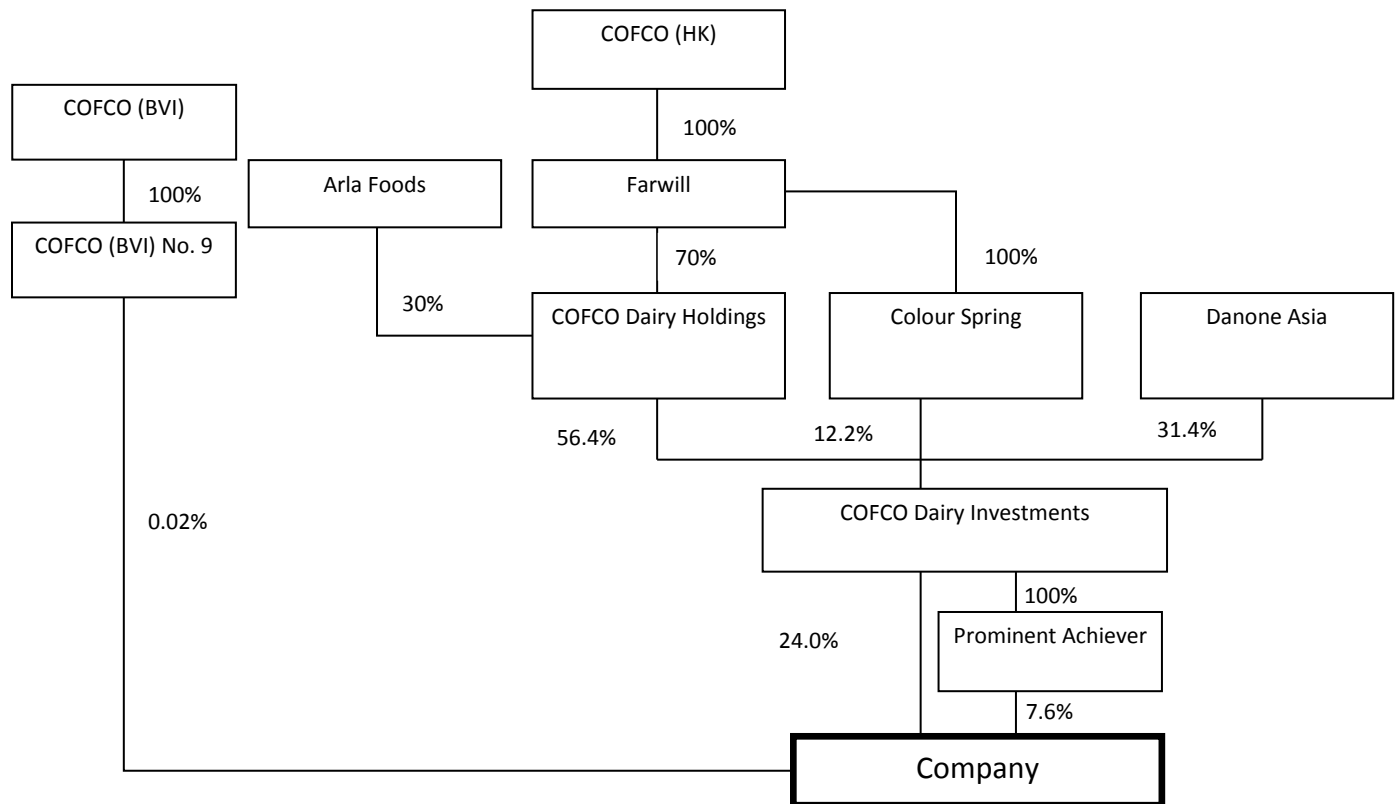
As at the date of this announcement, the Company has in issue 1,835,967,963 Shares.

The following tables illustrate the shareholding structure of the Company: (a) as at the date of this announcement; and (b) immediately following the Share Restructuring Completion and the Subscription Completion (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement and up to Subscription Completion):

As at the date of this announcement:



Immediately after the Share Restructuring Completion and the Subscription Completion:



LISTING RULES IMPLICATIONS

COFCO Dairy Investments currently owns, controls and has direction over 347,600,000 Shares, which represent approximately 18.9% of the existing issued share capital of the Company as at the date of this announcement. After the Share Restructuring, it will, directly and indirectly, owns, controls and has direction over approximately 27.0% of the existing issued share capital of the Company. COFCO Dairy Investments is a substantial Shareholder and is therefore a connected person of the Company. Accordingly, the Subscription constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, and Independent Shareholders' approval requirements under the Listing Rules.

Any member of the Concert Group and its associates and any other Shareholders who are involved or interested in the Share Restructuring, the Subscription and/or the Whitewash Waiver shall abstain from voting at the EGM in respect of the resolution(s) approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

APPLICATION FOR WHITEWASH WAIVER

As at the date of the Subscription Agreement, the Concert Group indirectly owns, controls and has directions over in aggregate 496,014,022 Shares, representing approximately 27.0% of the voting rights of the Company.

Upon the Subscription Completion, 121,236,357 Subscription Shares will be issued to COFCO Dairy Investments, and as a result, the interests of the Concert Group in the voting rights of the Company will be increased from approximately 27.0% to approximately 31.5% (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement and up to the Subscription Completion). Accordingly, the Concert Group would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by it and any parties acting in concert with it pursuant to Rule 26.1 of the Takeovers Code, unless the Whitewash Waiver is obtained from the Executive.

An application to the Executive for the Whitewash Waiver in respect of the issue of the Subscription Shares will be made on behalf of the Concert Group. The Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval by the Independent Shareholders at the EGM by way of poll. Any member of the Concert Group, its associates and any other Shareholders who are involved or interested in the Share Restructuring, the Subscription and/or the Whitewash Waiver shall abstain from voting at the EGM in respect of the resolution(s) approving the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver.

The granting by the Executive of the Whitewash Waiver and the approval by the Independent Shareholders at the EGM are part of the Subscription Conditions and cannot be waived. If the Whitewash Waiver is not granted, the Subscription will not proceed.

INFORMATION REQUIRED UNDER THE TAKEOVERS CODE

Each of the members of the Concert Group has confirmed that neither it nor any persons acting in concert with it:

- (a) (save as pursuant to the Share Restructuring and Subscription Agreement, and the Subscription Agreement) has acquired or disposed of or entered into any agreement or arrangement to acquire or dispose of any voting rights in the Company within the six months prior to the date of this announcement;
- (b) owns any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of Shares nor has entered into any outstanding derivative in respect of securities in the Company;
- (c) (save for the Shareholders' Agreement, the New Concert Party Agreement, the Amended and Restated Side Letter, the Arla's Amendment Agreements and Mengniu Board Seat Agreement) has any arrangement referred to in Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) with any other persons in relation to the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company and which might be material to the transactions contemplated under the Subscription Agreement and/or the Whitewash Waiver;
- (d) has received any irrevocable commitment from any Independent Shareholders as to whether they will vote for or against the resolution approving the transactions contemplated under the Subscription Agreement and/or the Whitewash Waiver;
- (e) has any agreements or arrangements to which it is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the

transactions contemplated under the Subscription Agreement or the Whitewash Waiver (including any such agreements or arrangements that would result in any break fees being payable); and

- (f) has borrowed or lent any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company.

NO EQUITY FUND RAISING ACTIVITIES IN THE PAST 12 MONTHS

Save for the Subscription, the Company did not undertake any equity fund raising activities in the past 12 months immediately prior to the date of this announcement.

THE INDEPENDENT BOARD COMMITTEE AND THE EGM

The Independent Board Committee has been formed to advise the Independent Shareholders on the terms of the Subscription Agreement and the transactions contemplated thereunder and the Whitewash Waiver. None of the members of the Independent Board Committee has any interest or involvement in the transactions contemplated under the Subscription Agreement or the Whitewash Waiver. The Company has, with the approval of the Independent Board Committee, appointed Somerley Capital Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder as well as the Whitewash Waiver.

The EGM will be held to consider and, if thought fit, pass the resolutions to approve, among other things: (i) the execution, delivery and performance of the Subscription Agreement; (ii) the grant of the Specific Mandate; (iii) the allotment and issue of the Subscription Shares in accordance with the Subscription Agreement, and (iv) the Whitewash Waiver. The voting in relation to the Subscription, the Specific Mandate and the Whitewash Waiver at the EGM will be conducted by way of a poll whereby any member of the Concert Group, its associates and other Shareholders who are interested or involved in the Subscription and the Whitewash Waiver shall abstain from voting on the relevant ordinary resolutions to be proposed at the EGM to approve the Subscription, the Specific Mandate and the Whitewash Waiver.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

DISPATCH OF CIRCULAR AND NOTICE OF EGM

A circular containing, among other things, details of the Subscription, the Specific Mandate and the Whitewash Waiver, together with the recommendation of the Independent Board Committee to the Independent Shareholders, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Subscription, the Specific Mandate and the Whitewash Waiver, and the notice of EGM is expected to be despatched by the Company to the Shareholders on or before March 5, 2014.

The Transactions are subject to the satisfaction (or, if applicable, waiver) of a number of conditions as set out in this announcement and, accordingly, the Transactions may or may not proceed and are possibilities only. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional adviser.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following respective meaning:

“acting in concert”	has the meaning ascribed to it under the Takeovers Code
“Amended and Restated Side Letter”	the amended and restated side letter between Arla Foods and Danone Asia to be entered into on the Completion Date, amending and restating the side letter dated as of June 28, 2013, between Arla Foods and Danone Asia
“Arla Foods”	Arla Foods Amba, a cooperative with limited liability established in Denmark
“Arla’s Amendment Agreements”	(i) the amendment agreement between COFCO (Hong Kong), Farwill, Arla Foods and COFCO Dairy Holdings to be entered into on the Completion Date, amending the shareholders’ agreement (as amended) dated as of June 15, 2012, between the same parties; and (ii) the amendment agreement between COFCO (Hong Kong), Farwill, Arla Foods and COFCO Dairy Holdings to be entered into on the Completion Date, amending the supplementary shareholders’ agreement (as amended) dated as of June 15, 2012, between the same parties
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (excluding Saturday, Sunday and public holiday) on which licensed banks are generally open for business in Paris, Singapore, Hong Kong and the PRC
“COFCO (BVI)”	COFCO (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of COFCO Corporation
“COFCO (BVI) No. 9”	COFCO (BVI) No. 9 Limited, a company incorporated in the British Virgin Islands with limited liability and is a wholly-owned subsidiary of COFCO (BVI), which in turn owns, controls and has direction over 400,000 Shares representing approximately 0.02% of the issued share capital of the Company as of the date of this announcement
“COFCO Dairy Holdings”	COFCO Dairy Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and is held as to 30% by Arla Foods and 70% by Farwill as of the date of this announcement
“COFCO Dairy Investments”	COFCO Dairy Investments Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of COFCO Dairy Holdings as of the date of this announcement
“COFCO Dairy Shares”	the ordinary shares of par value of HK\$1.00 each in COFCO Dairy Investments
“COFCO (HK)”	COFCO (Hong Kong) Limited, a company incorporated in Hong

	Kong with limited liability and a wholly-owned subsidiary of COFCO Corporation
“Colour Spring”	Colour Spring Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Farwill, which in turn is a wholly-owned subsidiary of COFCO (HK)
“Company”	China Mengniu Dairy Company Limited, a company incorporated in the Cayman Islands with limited liability with its shares listed on the main board of the Stock Exchange (stock code: 2319)
“Completion Date”	the date on which each of the Subscription Completion and the Share Restructuring Completion is to occur
“Concert Group”	COFCO (HK), Arla Foods, Danone Asia and parties acting in concert with any of them (including Prominent Achiever, COFCO Dairy Holdings and COFCO Dairy Investments)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Danone Asia”	Danone Asia Pte Ltd, a company established and existing under the laws of Singapore
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held to approve, among other things, the Subscription and the Whitewash Waiver
“Executive”	the Executive Director of the Corporate Finance Division of the SFC from time to time and any delegate of such Executive Director
“Farwill”	Farwill Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of COFCO (HK)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HSBC”	the Hongkong and Shanghai Banking Corporation Limited
“Independent Board Committee”	the committee comprising all the independent non-executive Directors, namely Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Liu Fuchun, Mr. Zhang Xiaoya, Mr. Andrew Y. Yan and Mr. Wu Kwok Keung Andrew (the remaining non-executive Directors will not be on the Independent Board Committee as they

	hold offices in Danone Asia, Arla Foods and the COFCO Corporation, and therefore, may be considered to have a material interest in the Subscription and the transactions contemplated thereunder, and the Whitewash Waiver) to be formed to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription Agreement and the Whitewash Waiver
“Independent Financial Adviser”	Somerley Capital Limited, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder as well as the Whitewash Waiver
“Independent Shareholders”	Shareholders other than any member of the Concert Group, its associates and parties acting in concert with any of them and other Shareholders who are interested or involved in the Share Restructuring, the Subscription and/or the Whitewash Waiver
“Last Trading Day”	February 11, 2014, being the last Trading Day of the Shares prior to the date of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Loan”	the indebtedness under the facility agreement dated June 17, 2013 among the Company as borrower, China Mengniu International Company Limited as offeror, HSBC and Standard Chartered Bank (Hong Kong) Limited as mandated lead arrangers, and HSBC as facility agent and as security agent
“Long Stop Date”	May 31, 2014 or such later date as the parties to the Subscription Agreement and the Share Restructuring and Subscription Agreement may agree in writing
“Mengniu Board Seat Agreement”	the agreement to be entered into by COFCO (HK) and Danone Asia for the purpose of governing the right of Danone Asia to appoint director(s) on the Board, to take effect upon Subscription Completion and Share Restructuring Completion
“New Concert Party Agreement”	the agreement to be entered into by COFCO (HK), Arla Foods and Danone Asia for the purpose of amending the existing concert party agreement among the same parties, to take effect upon Subscription Completion and Share Restructuring Completion
“PRC”	the People’s Republic of China (excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan)

“Prominent Achiever”	Prominent Achiever Limited, a company incorporated in Hong Kong with limited liability and is held as to 51% by Colour Spring and 49% by Danone Asia as of the date of this announcement
“Sale Consideration”	the consideration for the Share Restructuring under the Share Restructuring and Subscription Agreement
“Sell”	in relation to the Subscription Shares, means any of the following: (a) sell, assign, transfer or otherwise dispose of, or grant any option over, any Subscription Shares or any of COFCO Dairy Investments’ interest in the Subscription Shares; (b) create or permit to subsist any encumbrance over any Subscription Shares or any of COFCO Dairy Investments’ interest in the Subscription Shares; (c) enter into any agreement in respect of the votes or any other rights attached to any Subscription Shares or any of COFCO Dairy Investments’ interest in the Subscription Shares; or (d) renounce or assign any right to receive any Subscription Shares;
“SFC”	the Securities and Futures Commission of Hong Kong
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholders’ Agreement”	the shareholders’ agreement relating to COFCO Dairy Investments to be entered into among COFCO Dairy Investments, Colour Spring, Danone Asia and COFCO Dairy Holdings, in respect of the relationship among the shareholders of COFCO Dairy Investments upon the Share Restructuring Completion and Subscription Completion
“Shareholder’s Loan”	HK\$6,121,014,927.07, being that amount of the shareholder’s loan granted by COFCO Dairy Holdings to COFCO Dairy Investments to be capitalized in full prior to the Share Restructuring Completion and the Subscription Completion
“Share Restructuring”	the transfer by Colour Spring and Danone Asia of the entire issued share capital of Prominent Achiever to COFCO Dairy Investments pursuant to the Share Restructuring and Subscription Agreement
“Share Restructuring and Subscription Agreement”	the share restructuring and subscription agreement dated February 12, 2014 and entered into among COFCO Dairy Investments, Prominent Achiever, Colour Spring and Danone Asia in relation to the transfer by Colour Spring and Danone Asia of the entire issued share capital of Prominent Achiever to COFCO Dairy Investments and the issuance of 75,487,152 and 72,526,870 COFCO Dairy Shares to Colour Spring and Danone Asia, respectively as settlement for the Sale Consideration
“Share Restructuring Completion”	completion of the Share Restructuring in accordance with the terms and conditions of the Share Restructuring and Subscription Agreement

“Share Restructuring Conditions”	the conditions precedent to the Share Restructuring as set out in the section headed “Conditions of the Share Restructuring and Subscription”
“Shares”	ordinary shares of the Company of par value of HK\$0.10 each
“Specific Mandate”	the authority to be sought from the Independent Shareholders to authorize the Board to issue the Subscription Shares
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subscription”	the subscription for the Subscription Shares by COFCO Dairy Investments subject to the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated February 12, 2014 and entered into among the Company, COFCO Dairy Investments and Danone Asia in relation to the Subscription
“Subscription Completion”	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
“Subscription Conditions”	the conditions precedent to the Subscription Completion under the Subscription Agreement as set out in the section headed “Conditions of the Subscription”
“Subscription Price”	HK\$42.50 per Subscription Share
“Subscription Shares”	121,236,357 new Shares to be issued by the Company to COFCO Dairy Investments pursuant to the Subscription Agreement
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“Trading Days”	the days on which the Shares are traded on the Stock Exchange
“Transactions”	the Share Restructuring, the Subscription, the Whitewash Waiver, the Specific Mandate and the transactions contemplated under the Share Restructuring and Subscription Agreement, and the Subscription Agreement
“Whitewash Waiver”	the whitewash waiver as may be granted by the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code in respect of any obligation of the Concert Group to make a mandatory general offer for all the issued Shares and other securities of the Company not already owned (or agreed to be acquired) by any member of the Concert Group and parties acting in concert with it which might otherwise arise as a result of the Subscription

“0%”

per cent.

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

Hong Kong, February 12, 2014

As at the date of this announcement, the Board comprises: Ms. Sun Yiping, Mr. Bai Ying and Mr. Wu Jingshui as executive directors, Mr. Ning Gaoning, Mr. Yu Xubo, Mr. Niu Gensheng, Mr. Ma Jianping, Mr. Finn S. Hansen, Ms. Liu Ding and Mr. Christian Neu as non-executive directors, Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Liu Fuchun, Mr. Zhang Xiaoya, Mr. Andrew Y. Yan and Mr. Wu Kwok Keung Andrew as independent non-executive directors.

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

** For identification purposes only*