

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubts as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Mengniu Dairy Company Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sales or transfer was effected for transmission to the purchaser or the transferee.

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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)**

**MAJOR AND CONNECTED TRANSACTION  
DISPOSAL OF CMD SHARES  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee and  
the Independent Shareholders in respect of the Disposal**



A letter from the Independent Board Committee with its recommendations to the Independent Shareholders of China Mengniu Dairy Company Limited is set out on page 14 of this circular and a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders of China Mengniu Dairy Company Limited is set out on pages 15 to 22 of this circular.

A notice convening an EGM of the Company, to be held at Granville Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Monday, 28 August 2017 at 3:00 p.m. is set out on pages III-1 to III-2 of this circular.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Hong Kong share registrar of China Mengniu Dairy Company Limited, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof), not less than 48 hours before the time for holding the EGM. The completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM (or any adjourned meeting thereof) if you wish.

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## DEFINITIONS

*In this circular, the following expressions shall have the following meanings unless the context requires otherwise:*

“Announcement”	the Company’s announcement dated 6 August 2017
“associate(s)”	has the same meaning ascribed thereto under the Listing Rules
“Board”	the board of directors of the Company
“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 Group”	CMD and its subsidiaries
“CMD Shares”	ordinary share(s) of par value HK\$0.10 each in the share capital of CMD
“Company”	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)
“Completion”	the completion of the Disposal
“Completion Date”	the date on which Completion takes place, being the date on which the Independent Shareholders approves the Sale and Purchase Agreement and the Disposal at the EGM (such date not being later than the Long Stop Date), or such other date as may be agreed in writing between the Company and the Purchaser
“connected person”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company
“Disposal”	the proposed sale of the Sale Shares by the Company to the Purchaser pursuant to the Sale and Purchase Agreement

## DEFINITIONS

“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve the Sale and Purchase Agreement and the Disposal
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors (except for Mr. Julian Juul Wolhardt), namely Mr. Jiao Shuge (alias Jiao Zhen), Mr. Zhang Xiaoya and Mr. Yau Ka Chi
“Independent Financial Adviser” or “Sommerley”	Sommerley Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Disposal. Sommerley is 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)
“Independent Shareholder(s)”	Shareholders other than the Purchaser and its associates
“Latest Practicable Date”	10 August 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 December 2017, or such other date as the Company and the Purchaser may agree in writing
“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 circular)
“Purchaser”	COFCO Dairy Investments Limited, a limited liability company incorporated under the laws of Hong Kong

## DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the conditional sale and purchase agreement entered into between the Company and the Purchaser dated 5 August 2017 in respect of the sale of the Sale Shares
“Sale Shares”	30,000,000 CMD Shares beneficially owned by the Company as of the date of the Sale and Purchase Agreement
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong)
“Share(s)”	the ordinary share(s) of the Company, being the share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Success Dairy II”	Success Dairy II Limited, an exempt company organized under the laws of the Cayman Islands



**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)**

*Directors:*

Mr. Jeffrey, Minfang Lu  
Mr. Bai Ying  
Ms. Wu Wenting  
Mr. Ma Jianping<sup>#</sup>  
Mr. Niu Gensheng<sup>#</sup>  
Mr. Tim Ørting Jørgensen<sup>#</sup>  
Mr. Filip Kegels<sup>#</sup>  
Mr. Jiao Shuge (alias Jiao Zhen)\*  
Mr. Julian Juul Wolhardt\*  
Mr. Zhang Xiaoya\*  
Mr. Yau Ka Chi\*

*Registered Office:*

Maples Corporate Services Limited  
P.O. Box 309  
Ugland House  
Grand Cayman KY1-1104  
Cayman Islands

*Principal Place of Business in Hong Kong:*

Suites 801-2, 8th Floor  
COFCO Tower  
262 Gloucester Road  
Causeway Bay  
Hong Kong

*Company Secretary:*

Mr. Kwok Wai Cheong, Chris

<sup>#</sup> *Non-executive director*

\* *Independent Non-executive director*

11 August 2017

*To the Shareholders of the Company*

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION  
DISPOSAL OF CMD SHARES  
AND  
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**I. INTRODUCTION**

Reference is made to the Announcement, whereby the Board announced that on 5 August 2017, the Company entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Company agreed to sell, and the Purchaser agreed to purchase, the Sale Shares for a consideration of HK\$41.4 million, payable in cash.

\* *For identification purpose only*

## LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (1) further details of the Sale and Purchase Agreement and the Disposal, (2) the letter from the Independent Board Committee with its recommendations to the Independent Shareholders regarding the Sale and Purchase Agreement and the Disposal, (3) a letter from Somerley containing its advice to the Independent Board Committee and the Independent Shareholders regarding the Sale and Purchase Agreement and the Disposal, and (4) a notice convening the EGM and other information as set out in the appendices to this circular.

### II. MAJOR AND CONNECTED TRANSACTION – DISPOSAL OF CMD SHARES

#### 1. THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are summarized as follows:

##### **Date**

5 August 2017

##### **Parties**

The Company (as seller)

The Purchaser (as purchaser)

##### **Subject Matter**

Pursuant to the Sale and Purchase Agreement, the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, representing approximately 0.49% of the issued share capital of CMD as of the date of the Announcement. Please refer to the section headed “INFORMATION ON CMD, THE COMPANY AND THE PURCHASER – CMD” in this circular for further details of CMD.

##### **Consideration**

The Consideration for the sale of the Sale Shares is HK\$41.4 million, payable in cash. The Consideration represents HK\$1.38 per CMD Share, being the weighted average price of CMD Shares on the five trading days immediately prior to the date of the Sale and Purchase Agreement.

The Consideration was determined on the basis of normal commercial terms and after arm’s length negotiation between the Company and the Purchaser.

## LETTER FROM THE BOARD

### **Condition Precedent**

Completion is conditional the satisfaction (or waiver, if applicable) of the following conditions precedents:

- (a) the approval of the Independent Shareholders of the Sale and Purchase Agreement and the Disposal at the EGM;
- (b) the Disposal not being prohibited by or in violation of, and not subjecting any party of the Sale and Purchase Agreement to any penalty or liability under, applicable laws and regulations, and no person having instituted or threatened to institute any action or investigation to restrain, prohibit or otherwise challenge the Disposal or having threatened to take any action as a result of or in anticipation of the implementation of the Disposal;
- (c) the Company's warranties and the Purchaser's warranties set forth in the Sale and Purchase Agreement remaining true and accurate and not misleading in any material respect as of the date of the Sale and Purchase Agreement and at Completion; and
- (d) where applicable, the full and effective release of all charges, mortgages, pledges, liens, encumbrances and other security of whatever nature over or in respect of the Sale Shares.

If any of the conditions precedent set forth above has not been satisfied or waived on or before 11:59 p.m. on the Long Stop Date, the Sale and Purchase Agreement shall terminate automatically with immediate effect. The condition precedent set forth in (a) above may not be waived in any event by the Company or the Purchaser. The conditions precedent set forth in (b) to (d) above may be waived, in whole or in part and conditionally or unconditionally, by the Purchaser at its sole discretion.

### **Completion**

Completion shall take place on the Completion Date, being the date on which the Independent Shareholders approves the Sale and Purchase Agreement and the Disposal at the EGM (such date not being later than the Long Stop Date), or such other date as may be agreed in writing between the Company and the Purchaser.

### **Termination**

If Completion does not take place on the Completion Date due to any failure of a party to the Sale and Purchase Agreement to comply with any of its obligations with respect to Completion as set forth in the Sale and Purchase Agreement, the non-defaulting party shall have the discretion to terminate the Sale and Purchase Agreement.

## LETTER FROM THE BOARD

### 2. INFORMATION ON CMD, THE COMPANY AND THE PURCHASER

#### 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 31 December 2016, CMD Group operated 26 farms in China with 229,200 dairy cows in total.

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

	<b>The year ended 31 December 2015 (RMB'000)</b>	<b>The year ended 31 December 2016 (RMB'000)</b>
Revenue	4,826,341	4,862,311
Profit (Loss) before taxation	355,381	(784,991)
Profit (Loss) for the year attributable to the owners of CMD	321,296	(742,103)

As disclosed in the 2016 annual report of CMD Group, the total assets and net assets of the CMD Group as at 31 December 2016 were RMB17,808,704,000 and RMB7,122,896,000, respectively.

#### The Company

The Company is a company incorporated in the Cayman Islands with limited liability with its Shares listed on the Main Board of the Stock Exchange since 2004. The 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 products.

#### The Purchaser

The Purchaser is a limited liability company incorporated under the laws of Hong Kong and an investment holding company.

## LETTER FROM THE BOARD

### 3. FINANCIAL IMPACT OF THE DISPOSAL ON THE GROUP AND THE PROPOSED USE OF PROCEEDS

It is estimated that as a result of the Disposal, the Group will record a one-off unaudited loss of approximately RMB17 million, which represents the deficit arising between the net book value of the Sale Shares of approximately RMB53 million and the consideration derived from the Disposal of approximately RMB36 million (HK\$41.4 million). The detailed calculation of this deficit is set out below:

Number of CMD Shares held by the Company prior to Disposal	A	3,755,769,412
Total number of issued CMD Shares as of the Latest Practicable Date	B	6,131,406,706
<i>Number of CMD Shares to be disposed of pursuant to the Disposal</i>	C	30,000,000
Number of CMD Shares the Company will hold upon Completion	D=A-C	3,725,769,412
Consideration per Sale Shares (HK\$)	G	1.38
Exchange rate (HK:RMB)	H	0.8587
Net book value of the Company's investment in CMD	I	RMB6,580,000,000
Cost of Disposal	J=I*(C/A)	RMB52,559,140
Consideration for the Sale Shares	K=C*G*H	RMB35,550,000
Loss arising from Disposal	L=K-J	RMB(17,009,000)

The actual gain or loss as a result of the Disposal to be recorded by the Group is subject to audit and will be reassessed after Completion.

The Group intends to use the proceeds from the Disposal to repay certain of its existing indebtedness.

As it is the intention of the Company that CMD not be a subsidiary of the Company, the results of CMD will be accounted for in the Group's financial statements using the equity method of accounting. As such, Shareholders should note that the Group's financial statements will not consolidate the assets and liabilities of the CMD Group. On the other hand, the profits generated by the CMD Group will be reflected in the financial statements of the Group.

## LETTER FROM THE BOARD

### 4. REASONS FOR AND BENEFITS OF THE DISPOSAL

The Purchaser is an investment holding company and is indirectly held by COFCO Corporation (together with its subsidiaries, “COFCO”), Danone SA (together with its subsidiaries, “Danone”) and Arla Foods amba (together with its subsidiaries, “Arla Foods”) as of the date of the Announcement. The Directors (other than the independent non-executive Directors, who will be advised by Somerley, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, and whose views will be set out in this circular) are of the view that:

- (a) the Disposal would further optimise the shareholding structure of CMD and enhance the corporate governance of CMD;
- (b) the Disposal would also promote cooperation between CMD on the one hand, and COFCO, Danone and Arla Foods on the other, in areas including technology development and operational management, thereby further improving the technology standard and operational efficiency of CMD; and
- (c) in light of the above, the benefits of the Disposal in enhancing the shareholder value of CMD and the Group would outweigh the one-off unaudited loss incurred by the Group as a result of the Disposal.

Notwithstanding the series of transactions by the Company with respect to its interests in CMD since the beginning of this year, the Company would like to emphasise that there is no change to the overall intention of the Board with respect to CMD. In fact, since completion of the Offers, CMD has already begun to enhance its cooperation with the Company, in areas such as feedstuff supply and milk products. Accordingly, the Board is of the view that the Company does not need to maintain a high shareholding stake in CMD to achieve its overall strategic objective. In view of this, the Company issued the Bonds to allow the Company to reduce its financing cost, and to use the net proceeds of the Bonds to refinance certain of its existing indebtedness and for general corporate purpose. In addition, the Board has considered (i) the latest developments of the PRC dairy industry, for example, the increase in the market price for raw milk in the PRC has been sluggish and slower than the expectations of the Board at the time the Offers were made and has in fact fallen back to levels seen in mid-2016, which has meant that CMD had continued to operate under a difficult industry environment; and (ii) the losses that CMD suffered in 2016 and the first half of 2017. In view of these challenges, the Board believes that CMD would benefit from the introduction of three key industry players in the PRC and globally as shareholders of CMD.

## LETTER FROM THE BOARD

In particular, the Board is of the view that: (a) through the introduction of the Purchaser (an investment holding company held by COFCO, Danone and Arla Foods) as a direct shareholder of CMD, the shareholding structure of CMD is optimised as COFCO, Danone and Arla Foods could take a direct and active role through the Purchaser as a shareholder of CMD and voice their views to CMD directly, rather than only through the Company. The Company believes that (a) a shareholding structure that incorporates support from key industry players would strengthen any initiatives the Company has to further enhance the corporate governance of CMD; and (b) the introduction of the Purchaser as a direct shareholder of CMD would also encourage cooperation between CMD on the one hand, and COFCO, Danone and Arla Foods, as the Purchaser will directly benefit from any cooperation that may take place between them.

The number of CMD Shares disposed in the Disposal was determined after considering (i) the above benefits to be derived as a result of the Disposal; (ii) the trading price of CMD Shares; and (iii) the desire of the Company to minimize financial loss as a result of the Disposal. It is estimated that as a result of the Disposal, the Group will record a one-off unaudited loss of approximately RMB17 million. The Board is of the view that such loss will not have a material impact on the overall performance of the Group. Considering the benefits of the Disposal mentioned above, the Directors are of the view that benefits of the Disposal in enhancing the shareholder value of CMD and the Group would outweigh the one-off unaudited loss incurred by the Group as a result of the Disposal.

The Company became the single largest shareholder of CMD in 2013. The Company's status as the single largest shareholder of CMD was strengthened as a result of the acquisition of CMD Shares from Success Dairy II in 2017 and pursuant to the Offers. Upon completion of the Disposal, the Company will continue to be the single largest shareholder of CMD and for the purpose of the Listing Rules, it will still be a "controlling shareholder" of CMD. Therefore, the Board is of the view that the Disposal will not affect the Company's ability to exert influence over CMD, but with the introduction of the Purchaser as CMD's direct shareholder, would hope to further strengthen the ability of the Company, COFCO, Danone and Arla Foods to direct CMD's strategic initiatives going forward. Accordingly, the Board believes the Disposal is in the interest of the Company and its Shareholders taken as a whole.

### 5. OPINION OF THE BOARD

The Directors (including the independent non-executive Directors after taking into account of the advice from Somerley, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, whose views are set out in this circular) consider that the Disposal is conducted on normal commercial terms and the terms of the Sale and Purchase Agreement are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

Directors associated with the Purchaser and its associates, namely Mr. Ma Jianping and Ms. Wu Wenting, Mr. Tim Ørting Jørgensen and Mr. Filip Kegels, have abstained from voting approving the Sale and Purchase Agreement and the Disposal.

## LETTER FROM THE BOARD

Mr. Julian Juul Wolhardt, an independent non-executive Director, was a director of Success Dairy II. The Company entered into a sale and purchase agreement with Success Dairy II on 4 January 2017 pursuant to which the Company conditionally agreed to acquire and Success Dairy II conditionally agreed to sell 965,465,750 CMD Shares at HK\$1.94 per CMD Share (the “**Transaction**”). The Transaction was completed on 7 February 2017. In light of his position in Success Dairy II and his involvement in the Transaction, Mr. Julian Juul Wolhardt has abstained from voting approving the Sale and Purchase Agreement and the Disposal.

Except as disclosed above, none of the Directors has any material interests in the Sale and Purchase Agreement and the Disposal and hence no other Director has abstained from voting on such Board resolutions.

### **6. LISTING RULES IMPLICATIONS**

Aggregating the effects of the issuance of the Bonds and the Disposal, upon Completion, (i) assuming that the Bonds are fully exchanged into CMD Shares at the initial notional price, the Company will hold approximately 49.5% of the issued share capital of CMD; and (ii) assuming that no Bonds are exchanged into CMD Shares, the Company will hold approximately 60.8% of the issued share capital of CMD. The Company currently has no further plans to sell its remaining interests in CMD after Completion.

The issuance the Bonds and the Disposal are transactions which are aggregated for the purpose of Rule 14.22 of the Listing Rule. It is the intention of the Company that CMD not be a subsidiary of the Company.

The Company is of the view, and such view has been endorsed by the Company’s reporting accountants that notwithstanding that the Bonds have not been fully exercised, the aggregation of the series of transactions of the Company in respect of the Company’s interest in CMD Shares, including the issuance of the Bonds and the lending of up to 689,438,782 CMD Shares in aggregate to BOCI Financial Products Limited (whereby the voting rights attached to such shares have also been lent to the borrower and are no longer exercisable by the Company) in connection with the issuance of the Bonds, the Disposal, among other factors, mean that upon completion of such series of transactions (including the Bonds whose issuance has been completed for this purpose), including the Disposal, CMD will not be a subsidiary of the Company, having regard to the relevant laws and regulations.

As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Disposal is more than 25% but less than 75%, the Disposal constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

## LETTER FROM THE BOARD

As at the date of the Announcement, the Purchaser holds approximately 31.42% of the issued share capital of the Company. Therefore, the Purchaser is a connected person of the Company under the Listing Rules. As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Disposal is more than 25%, the Disposal also constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In accordance with the Listing Rules, the Purchaser and its associates, together holding approximately 31.44% of the voting rights of the Company as of the Latest Practicable Date, will abstain from voting on the resolution to approve the Sale and Purchase Agreement and the Disposal at the EGM.

### III. NOTICE OF EGM

A notice convening the EGM to be held at Granville Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Monday, 28 August 2017 at 3:00 p.m. is set out on pages III-1 to III-2 of this circular. At the EGM, ordinary resolution will be proposed to approve the Sale and Purchase Agreement and the Disposal. In accordance with the Listing Rules, the Purchaser and its associates, together holding approximately 31.44% of the voting rights of the Company as of the Latest Practicable Date, will abstain from voting on the resolution to approve the Sale and Purchase Agreement and the Disposal at the EGM. So far as the Company is aware, other than the Purchaser and its associates, no other Shareholder will be required to abstain from voting at the EGM. Pursuant to Rule 13.39 of the Listing Rules, all votes of the Shareholders at general meetings must be taken by poll.

A proxy form for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time of the EGM. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM if you so wish.

### IV. RECOMMENDATION

An Independent Board Committee comprising all the independent non-executive Directors (except for Mr. Julian Juul Wolhardt) has been established to advise and make recommendations to the Independent Shareholders as to how to vote at the EGM on the resolution in relation to on the Sale and Purchase Agreement and the Disposal.

Somerley has been appointed as the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Sale and Purchase Agreement are fair and reasonable, and whether the Disposal is conducted on normal commercial terms and is in the interests of the Company and its Shareholders as a whole.

## LETTER FROM THE BOARD

Based on the relevant information disclosed herein, the Directors (including the independent non-executive Directors after taking into account of the advice of the Independent Financial Adviser), consider that the Sale and Purchase Agreement and the Disposal, though not in the ordinary and usual course of business of the Group, are on normal commercial terms and in the interests of the Company and the Shareholders as a whole and the terms of the Sale and Purchase Agreement and the Disposal are fair and reasonable. Accordingly, the Directors recommend the Independent Shareholders of the Company to vote in favor of the resolution in respect of the Sale and Purchase Agreement and the Disposal to be purposed at the EGM.

### V. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the periods from Friday, 25 August 2017 to Monday, 28 August 2017, both days inclusive, for the purpose of ascertaining shareholders' eligibility to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 24 August 2017.

### VI. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee, the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders and the additional information set out in the appendices to this circular.

Yours faithfully

By order of the board of directors

**China Mengniu Dairy Company Limited**

**Jeffrey, Minfang Lu**

*Chief Executive Officer and Executive Director*



**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)**

11 August 2017

*To the Independent Shareholders of the Company*

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION  
DISPOSAL OF CMD SHARES**

We have been appointed as the Independent Board Committee to give a recommendation to the Independent Shareholders of the Company in connection with the Sale and Purchase Agreement and the Disposal contained in the circular to the Shareholders dated 11 August 2017 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Sale and Purchase Agreement, and the advice and opinion of the Independent Financial Adviser in relation thereto as set out on pages 15 to 22 of the Circular, we are of the opinion that the Sale and Purchase Agreement and the Disposal, though not in the ordinary and usual course of business of the Group, are on normal commercial terms and in the interests of the Company and the Shareholders as a whole and the terms of the Sale and Purchase Agreement and the Disposal are fair and reasonable. We therefore recommend that the Independent Shareholders of the Company vote in favor of the resolution to be proposed at the EGM in respect of the Sale and Purchase Agreement and the Disposal.

Yours faithfully,

For and on behalf of the Independent Board Committee

**Mr. Jiao Shuge (alias Jiao Zhen)**

*Independent*

*Non-executive Director*

**Mr. Zhang Xiaoya**

*Independent*

*Non-executive Director*

**Mr. Yau Ka Chi**

*Independent*

*Non-executive Director*

\* *For identification purpose only*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the letter of advice from Somerley Capital Limited, the Independent Financial Adviser, to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



**SOMERLEY CAPITAL LIMITED**  
20th Floor  
China Building  
29 Queen's Road Central  
Hong Kong

11 August 2017

To: *the Independent Board Committee and  
the Independent Shareholders*

Dear Sirs,

### **MAJOR AND CONNECTED TRANSACTION DISPOSAL OF CMD SHARES**

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Disposal of the Sale Shares by the Company (as seller) to the Purchaser (as purchaser) pursuant to the Sale and Purchase Agreement. Details of the Disposal and the Sale and Purchase Agreement are set out in the "Letter from the Board" contained in the circular of the Company to the Shareholders dated 11 August 2017 (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

As at the Latest Practicable Date, the Purchaser held approximately 31.42% of the issued share capital of the Company and is therefore a connected person of the Company under the Listing Rules. As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Disposal is more than 25% but less than 75%, the Disposal constitutes a major and connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements as stipulated under the Listing Rules. In this connection, the Company will seek the Independent Shareholders' approval for the Sale and Purchase Agreement and the Disposal at the EGM.

The Independent Board Committee, comprising three independent non-executive Directors, namely Mr. Jiao Shuge (alias Jiao Zhen), Mr. Zhang Xiaoya and Mr. Yau Ka Chi, has been established to advise the Independent Shareholders on whether (1) the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (2) the Disposal is in the interests of the Company and the Shareholders as a whole. Mr. Julian Juul Wolhardt, an independent non-executive Director, was a director of Success Dairy II which sold 965,465,750 CMD Shares to the Company pursuant to an agreement dated 4 January 2017,

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does not form part of the Independent Board Committee. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, Somerley Capital Limited has acted as the independent financial adviser to (i) the independent board committee of CMD in relation to mandatory cash offers to acquire all the issued shares in CMD and for cancellation of all outstanding options in CMD as detailed in CMD's composite document dated 14 February 2017; and (ii) the independent board committee and the independent shareholders of Yashili International Holdings Ltd (stock code: 1230) ("**Yashili**"), a subsidiary of the Company, in relation to (a) two major and connected transactions as detailed in Yashili's circulars dated 29 October 2015 and 3 May 2016 respectively; and (b) continuing connected transaction as detailed in Yashili's circular dated 23 November 2016. The aforesaid past engagements were limited to providing independent advisory services to the respective independent board committee and/or the independent shareholders of CMD and Yashili pursuant to the Listing Rules and the Code on Takeovers and Mergers published by the Securities and Futures Commission of Hong Kong (the "**SFC**"), for which Somerley Capital Limited received normal professional fees. As the past engagements were limited to providing independent advice, as at the Latest Practicable Date, there have been no relationships or interests existing between (a) Somerley Capital Limited and (b) the Group and the Purchaser that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Disposal as detailed in the Circular.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects and will remain so up to the time of the EGM. We have also sought and received confirmation from the executive Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. We have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group and the Purchaser, nor have we carried out any independent verification of the information supplied.

## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In considering whether (1) the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (2) the Disposal is in the interests of the Company and the Shareholders as a whole, we have taken into account the principal factors and reasons set out below:

### **1. Background to and reasons for the Sale and Purchase Agreement**

The Group is one of the leading dairy product manufacturers in the PRC and is principally engaged in manufacturing and distribution of quality dairy products including liquid milk, ice-cream, milk formula and other products. It is noted in the Company's 2016 annual report that the Group will deploy different upstream and downstream resources to enhance quality of milk sources, being an important quality assurance for dairy enterprises. CMD is the Group's long-term partner and its largest raw milk supplier. We note from CMD's 2016 annual report that CMD Group is primarily engaged in two business segments, including dairy farming business and liquid milk products business, and is one of the largest dairy farming companies and raw milk producers in the PRC in terms of herd size and quantity. The Group has firstly invested in CMD in 2013 and has increased its shareholding in CMD from approximately 25% to approximately 61% through an acquisition and mandatory cash offers in early 2017. The Company has also issued exchangeable bonds (the "**Bonds**") which are exchangeable into CMD Shares in June 2017. After the increase in shareholding in CMD and issuance of the Bonds, the Group and CMD Group continue to operate independently. As set out in the sub-section headed "Financial effects on the Group" of this letter below, the Company is of the view, and such view has been endorsed by its reporting accountants, that upon completion of the series of transactions of the Company in respect of its interest in CMD Shares (including the Disposal), CMD will not be a subsidiary of the Company. The executive Directors advise us that the Group intends to continue its cooperation with CMD Group and they consider that the increased shareholding in CMD will enable the Group to further collaborate with CMD in enhancing the Group's upstream supply chain resources, which will assure the Group of stable and high-quality milk supply, strengthen the Group's positioning in the high-end dairy product market and support the development of chilled dairy products, and enhance the Group's control over milk sources.

The Purchaser, being a substantial shareholder of the Company, is controlled by COFCO Corporation ("**COFCO**"), Danone S.A. ("**Danone**") and Arla Foods a.m.b.a ("**Arla**") who are strategic shareholders of the Company. The Group has been working closely with these three Shareholders, all being global food/dairy enterprises, to improve its dairy product quality and has benefited from cooperation with them. The executive Directors consider that cooperation between the three shareholders of the Purchaser and CMD will be promoted after introducing the Purchaser as a direct shareholder of CMD. This should enhance CMD's operating efficiency and product quality, especially through potential cooperation with Arla such as introduction of Arla's advanced ranch management system and the "Standard Operational Procedure", which will in turn benefit the Group in terms of

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quality of milk sources and sharing of financial results of CMD Group in due course. Further information on the Purchaser, the Purchaser's three shareholders (COFCO, Danone and Arla) and the intended cooperation between such three shareholders of the Purchaser with CMD Group are set out in the sub-section headed "Information on the Purchaser and its shareholders and possible cooperation with CMD Group" of this letter below.

Having considered the above, including, among other things, (a) the businesses of the Group and its development strategy; and (b) information on the Purchaser, its shareholders and the possible cooperation with CMD Group (further details are set out in the sub-section headed "Information on the Purchaser and its shareholders and possible cooperation with CMD Group" of this letter below), we concur with the executive Directors that introduction of the Purchaser as a shareholder of CMD through the Disposal should help improve CMD's product quality and operating efficiency, which may facilitate the Group's further collaboration with CMD in enhancing the Group's upstream and supply chain resources and is in line with the Group's development strategy.

### **2. Principal terms of the Sale and Purchase Agreement**

Principal terms of the Sale and Purchase Agreement are summarised below. Further details of the principal terms of the Sale and Purchase Agreement are set out in the section headed "The Sale and Purchase Agreement" in the "Letter from the Board" contained in the Circular.

#### *(A) Subject of the Disposal*

Pursuant to the Sale and Purchase Agreement, the Company (as the seller) has conditionally agreed to sell, and the Purchaser (as the purchaser) has conditionally agreed to purchase, the Sale Shares (being 30,000,000 CMD Shares), representing approximately 0.49% of the issued share capital in CMD as at the date of the Announcement.

#### *(B) Consideration and payment terms*

The Consideration for the sale of the Sale Shares is HK\$41.4 million payable in cash. The Consideration represents HK\$1.38 per CMD Share, being the weighted average price of CMD Shares on the five trading days immediately prior to the date of the Sale and Purchase Agreement. The Consideration was determined on the basis of normal commercial terms and after arm's length negotiation between the Company and the Purchaser.

#### *(C) Conditions precedent*

Completion is conditional upon, among other things, the approval of the Independent Shareholders of the Sale and Purchase Agreement and the Disposal at the EGM. Further details of the conditions precedent to the Disposal are set out in the sub-section headed "Condition precedent" under

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the section headed “The Sale and Purchase Agreement” in the “Letter from the Board” contained in the Circular. The conditions precedent, other than the condition of approval by the Independent Shareholders, may be waived by the Purchaser at its sole discretion. Based on the information available as at the Latest Practicable Date, it is expected that the conditions precedent (b), (c) and (d) to the Disposal as set out in the aforesaid section in the “Letter from the Board” contained in the Circular will be fulfilled or waived at Completion.

### *(D) Long stop date and termination*

If the conditions precedent have not been satisfied (or waived where applicable) by the Long Stop Date (i.e. 31 December 2017), the Sale and Purchase Agreement shall terminate automatically with immediate effect. If Completion does not take place on the Completion Date due to any failure of a party to the Sale and Purchase Agreement to comply with any of its obligations with respect to Completion as set forth in the Sale and Purchase Agreement, the non-defaulting party shall have the discretion to terminate the Sale and Purchase Agreement.

### **3. Information on the Purchaser and its shareholders and possible cooperation with CMD Group**

The Purchaser is an investment holding company and is indirectly held by COFCO, Danone and Arla. COFCO is a stated-owned enterprise in the PRC and is one of world’s largest food enterprises. Danone is a worldwide food enterprise operating in more than 130 countries, mainly engaged in dairy and plant based products, water, early life nutrition and medical nutrition. We note from Arla’s 2016 annual report that it is the world’s fourth largest dairy company based on milk intake.

As set out in the section headed “Reasons for and benefits of the Disposal” of the “Letter from the Board” contained in the Circular, the Disposal would promote cooperation between CMD on the one hand, and COFCO, Danone and Arla on the other, in areas including technology development and operational management. In particular, the executive Directors are of the view that cooperation with Arla would give CMD Group access to Arla’s expertise in dairy farming which is the key business of CMD Group. They consider that CMD Group would have an opportunity to bring in Arla’s advanced ranch management system and the “Standard Operation Procedure” (i.e. standardized procedures for operation of dairy farms) through cooperation with Arla and China-Denmark Milk Technology Cooperation Centre (中國-丹麥乳品技術合作中心), a center set up by COFCO and Arla in 2012. We understand from the Company that China-Denmark Milk Technology Cooperation Centre was established for importing advanced management system to and improving the development of the dairy industry in the PRC. Introduction of the “Standard Operation Procedure” will help to guide and standardize the daily work of operation personnel, which aims at enhancing the operating efficiency of dairy farms. It is expected that the quality and production capacity of dairy products will be enhanced by such introduction. As advised by the

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executive Directors, the Group has cooperated with Arla and China-Denmark Milk Technology Cooperation Centre in the past and achieved benefits including (a) reducing time for milking; (b) increasing the milk volume produced in several of its farms; and (c) improving the healthiness of its dairy cows. As advised by the executive Directors, the Company understands from COFCO, Danone and Arla that they intend to discuss with CMD for future cooperation after completion of the Disposal.

Based on the above, we concur with the executive Directors that CMD Group should have the opportunity to benefit from the possible cooperation with the three shareholders of the Purchaser in terms of operating efficiency, products quality and, in due course, financial results.

#### **4. Financial effects on the Group**

As set out in the section headed “Financial impact of the Disposal on the Group and the proposed use of proceeds” of the “Letter from the Board” contained in the Circular, it is estimated that the Group will record a one-off unaudited loss of approximately RMB17 million (equivalent to approximately HK\$20 million at an exchange rate of HK\$1=RMB0.8587) as a result of the Disposal, which represents the deficit arising between the net book value of the Sale Shares of approximately RMB53 million and the consideration derived from the Disposal of HK\$41.4 million (equivalent to approximately RMB36 million at an exchange rate of HK\$1=RMB0.8587). Further details of the one-off unaudited loss are set out in the aforesaid section in the “Letter from the Board” contained in the Circular. The actual gain or loss on the Disposal to be recorded by the Group will be subject to audit by auditors of the Company. The Group intends to use the proceeds from the Disposal to repay certain of its existing indebtedness. As set out in the section headed “Listing Rules implications” of the “Letter from the Board” contained in the Circular, the Company is of the view, and such view has been endorsed by its reporting accountants, that notwithstanding that the Bonds have not been fully exercised, the aggregation of the series of transactions of the Company in respect of its interest in CMD Shares including, among other things, the issuance of the Bonds and the Disposal, among other factors, mean that upon completion of such series of transactions (including the Bonds whose issuance has been completed for this purpose) including the Disposal, CMD will not be a subsidiary of the Company, having regard to the relevant laws and regulations. As set out in the section headed “Financial impact of the Disposal on the Group and the proposed use of proceeds” in the “Letter from the Board” contained in the Circular, the results of CMD will be accounted for in the Group’s financial statements using the equity method of accounting, and the Group’s financial statements will not consolidate the assets and liabilities of CMD Group. The executive Directors are of the view that the Group’s financial results may benefit in due course from the potential improvement in operating efficiency of CMD Group through its investment in CMD. We note from the Company’s 2016 annual report that the Group recorded net assets attributable to owners of the Company of approximately RMB20.8 billion as at 31 December 2016. The estimated loss on the Disposal of approximately RMB17 million, as compared to the net assets attributable to owners of the Company of approximately RMB20.8

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billion as at 31 December 2016, is not material. Although the Disposal is expected to result in a one-off loss to the Group, taking into account (i) the possible cooperation between the three shareholders of the Purchaser with CMD Group as discussed in the sub-section above; (ii) potential benefits to the Group arising from the Disposal as discussed in the sub-section headed “Background to and reasons for the Sale and Purchase Agreement” of this letter above; and (iii) the estimated amount of the loss from the Disposal being not material to the Group, we consider that such estimated loss on the Disposal is offset by the potential benefits.

### DISCUSSION

CMD Group has been the Group’s long-term partner and its largest raw milk supplier. With its first investment made in 2013, the Group has increased its shareholding in CMD in the first half of 2017, which gives the Group an opportunity to further collaborate with CMD in enhancing the Group’s upstream supply chain resources. The Group and CMD Group operates independently and CMD Group will not be a subsidiary of the Company upon completion of the series of transactions of the Company in respect of its interest in CMD Shares (including the Disposal). It is the Group’s intention to continue its cooperation with CMD Group.

The Group has cooperated with the three shareholders of the Purchaser, namely COFCO, Danone and Arla, and has benefited from such cooperation in the past. It is expected that CMD Group will also benefit from cooperation with these three shareholders, especially the cooperation with Arla. The Disposal, with a consideration based on the weighted average price of CMD Shares on the five trading days immediately prior to the date of the Sale and Purchase Agreement, will introduce the three shareholders of the Purchaser as direct shareholders of CMD, even for a relatively small stake, as part of an intended wider commercial collaboration. COFCO, Danone and Arla intend to discuss with CMD for future cooperation after completion of the Disposal. With the cooperation with the three shareholders, in particular the chance to bring in Arla’s advanced ranch management system and the “Standard Operation Procedure”, it is expected that the quality and production capacity of dairy products of CMD Group will be enhanced, which will assure the Group of stable and high-quality milk supply.

There is a small estimated loss on disposal but the executive Directors consider it immaterial in light of the potential commercial gain, particularly as regards product quality, a very important factor for dairy products in the PRC market.

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### OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons including those summarised in the section headed “Discussion” above, we consider that (1) the Disposal, though not in the ordinary and usual course of business of the Group, is in line with the business strategy of the Group; (2) the terms of the Sale and Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (3) the Disposal is in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**Stephanie Chow**  
*Director*

*Ms. Stephanie Chow is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. She has over seven years' experience in the corporate finance industry.*

**1. FINANCIAL INFORMATION OF THE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2014, 2015 AND 2016**

Financial information of the Group for each of the three years ended 31 December 2014, 2015 and 2016 is disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company ([www.mengniu.com](http://www.mengniu.com)):

- (a) Annual report of the Group for the year ended 31 December 2016 published on 27 April 2017 (pages 103 to 292);
- (b) Annual report of the Group for the year ended 31 December 2015 published on 29 April 2016 (pages 97 to 280); and
- (c) Annual report of the Group for the year ended 31 December 2014 published on 29 April 2015 (pages 97 to 292).

**2. MATERIAL ACQUISITION SINCE THE LATEST AUDITED ACCOUNTS**

On 4 January 2017, the Company announced the acquisition of 965,465,750 additional shares of CMD, representing approximately 15.7% of the total issued share capital of CMD upon completion of the relevant share purchase agreement, for a consideration of approximately HK\$1.9 billion. Upon completion of such acquisition, the Company beneficially held approximately 37.7% of the total issued share capital of CMD, and conditional mandatory cash offers (the “Offers”) were triggered to acquire all the issued shares in CMD (other than those already owned or agreed to be acquired by the Company) and for cancellation of all outstanding options in CMD. Such transaction was approved at the extraordinary general meeting of the Company held on 3 February 2017. The Company announced on 7 March 2017 that the Offers were unconditional in all aspects, and announced on 21 March 2017 that the Offers were closed at 4:00 p.m. of that day. Under the Offers, the Company received valid acceptances in respect of a total of 1,442,400,662 CMD Shares (representing approximately 23.5% of the entire issued share capital of CMD) and in respect of a total of 264,320,873 outstanding options in CMD (representing approximately 83.8% of the total number of outstanding options in CMD). Immediately following the close of the Offers, taking into account the valid acceptances in respect of 1,442,400,662 CMD Shares under the Offers, the Company held an aggregate of 3,755,769,412 CMD Shares (representing approximately 61.3% of the issued share capital of CMD). The listing status of CMD was maintained after the close of the Offers. Please refer to the Company’s announcements dated 4 January 2017, 25 January 2017, 7 February 2017, 14 February 2017, 7 March 2017 and 21 March 2017 for details.

According to the Dairy Association of China, in terms of herd size, CMD is the largest dairy farming company as well as the largest raw milk producer in China. It is the first to bring in advanced international management model to China's dairy breeding industry, in its hope to provide safe and quality dairy products to consumers. CMD is a long-term partner of the Company and the Company's largest raw milk supplier. The further equity investment in CMD will enable the Company to smoothen upstream and downstream cooperation, thus creating a more harmonious industry ecosystem. The strict raw milk production process of CMD will assure the Company of supply of quality milk sources, conducive to the development of chilled products business, and also to help enrich its mid-range and high-end product lines and fortify its leadership in the high-end dairy products market.

Save as disclosed above, the Group has had no material acquisitions since 31 December 2016, the date to which the latest published audited financial statements of the Group were made up.

### **3. FINANCIAL AND TRADING PROSPECT OF THE GROUP**

The Company has a prominent position in the dairy sector in China which continues to have significant room for growth driven by urbanization, rising income levels and the relaxation of the one-child policy. As consumption of dairy products grows in China, consumers are becoming more sophisticated and are increasingly demanding higher-end, healthier and more nutritious products and as such, the Company continues to place significant strategic emphasis on product innovation and research and development as well as on ensuring food safety by exercising quality control and optimization throughout its entire industrial chain.

The acquisition of the CMD Group will play a significant role in the development of this strategy. The Group will be an integrated market leader with demonstrated ability to control the entire value chain which will in turn facilitate improved product innovation by strengthening its position in the high-end dairy products market and supporting the development of low temperature dairy products. The acquisition will enhance the ongoing business collaboration between the Group and the CMD Group, and will ensure the continuity of high quality and safe raw milk supply to the Group, which is essential to the success of high-end dairy products, and provides significant strategic value to the Company.

The Group intends that the CMD Group will continue to operate its business in substantially its current state while it implements a business plan to improve integration, maximise synergies and drive improved performance and strategic development of the CMD Group in line with the Company's future growth plans. With an integrated platform, the Group will mainly focus on the following initiatives:

- **Strategic Cooperation and Integration.** In addition to greater strategic cooperation with the CMD Group, the Company will continue to work together and cooperate with its strategic partners and stakeholders such as Danone, Arla, Yashili and Whitewave. Through leveraging on the expertise, experience and technology of its strategic partners, the Group will continue to enhance its product offerings and expansion into different product segments as well as improve its operational efficiency and overall management.
- **Management of milk sources.** The Group will continue to invest in advanced resources and technologies and work together with its strategic partners to further strengthen its milk sourcing capabilities in aspects such as deployment, structure, quality and technology. The Group plans to fully leverage on CMD's expertise in domestic large-scale farming and quality management, to help the Group in quality control of raw milk purchased from smaller dairy farmers, which will further improve the Group's operational capabilities. The stable supply of high quality milk from the CMD Group will enable the Group to focus on premium products with higher value-add to satisfy consumers' increasing demand for higher quality milk and higher-end products.
- **Distribution network.** The Group will continue to strengthen its sales channels with a key focus on "vertical flattening, horizontal integration, function optimization and enhancement in various sales regions" and by accelerating implementation of the Route to Market project, building real regional platforms and regional management centers. Furthermore, the Group plans to leverage its extensive distribution network and strong resources to conduct more efficient distribution of CMD's products as well as drive further integration throughout the Group such as sharing e-commerce resources, joint negotiation for key account channels, and cross-selling opportunities.
- **Quality control.** The Group will continue to strictly control the end-to-end risks throughout the entire industrial chain and safeguard product quality using the "four carriages mechanism" – i.e. the quality and safety management system and the three quality management centers for milk sources, operations and sales respectively. In addition, the CMD Group is a pioneer in domestic large-scale farming and its expertise in farming and quality management will help the Group in quality control of raw milk purchased from smaller dairy farmers which will further improve operational capabilities.

#### 4. INDEBTEDNESS

##### Borrowings

As at the close of business on 30 June 2017, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had the following outstanding borrowings:

	Secured <i>RMB'000</i>	Unsecured <i>RMB'000</i>	Total <i>RMB'000</i>
Bank loans	1,142,267	8,343,072	9,485,339
Exchangeable bonds	–	1,316,876	1,316,876
Corporate bonds	–	3,375,363	3,375,363
Other loans	–	24,234	24,234
Long term payables	62,329	–	62,329
	<u>1,204,596</u>	<u>13,059,545</u>	<u>14,264,141</u>

The secured bank loans of RMB1,044,442,000 were secured by certain pledged bank deposits, land use rights, property, plant and equipment and dairy cows of the Group, while the secured bank loans of RMB97,825,000 were secured by all present and after acquired property of Yashili New Zealand Dairy Co., Limited, which is a subsidiary of the Group; the secured long term payables of RMB62,329,000 were secured by certain property, plant and equipment of the Group.

##### Guarantees

As at 30 June 2017, the Group did not have any significant guarantees.

##### Contingencies

As at 30 June 2017, the Group did not have any significant contingent liabilities.

Save as aforesaid or as otherwise mentioned herein, and apart from intra-group liabilities, none of the companies in the Group had, at the close of business on 30 June 2017, any outstanding loan capital (issued and outstanding or agreed to be issued), bank overdrafts, debentures, loans or other similar indebtedness, mortgages or charges, or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 30 June 2017.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into RMB at the exchange rates of US\$1.00 to RMB6.7744, EUR€1.00 to RMB7.7496, NZ\$1.00 to RMB4.9569 and HK\$1.00 to RMB0.8679 prevailing at the close of business on 30 June 2017.

#### **5. WORKING CAPITAL**

The Directors are of the opinion that, in the absence of unforeseeable circumstances and after taking into account the expected completion of the Disposal and the Group's present internal resources and available banking facilities, the Group has sufficient working capital for its present requirement for at least the next 12 months from the date of this circular.

#### **6. NO MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or prospect of Group since 31 December 2016, the date to which the latest published audited financial statements of the Group were made up.

**A. RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular or this circular misleading.

**B. RECENT CHANGES IN THE SHAREHOLDING STRUCTURE OF CMD**

Immediately prior to the completion of the acquisition of 965,465,750 CMD Shares on 4 January 2017, the Company beneficially held approximately 25.4% of the total issued share capital of CMD. Upon completion of the acquisition of 965,465,750 CMD Shares on 4 January 2017, the Company beneficially held approximately 37.7% of the total issued share capital of CMD. Immediately following the close of the Offers, the Company held an aggregate of 3,755,769,412 CMD Shares (representing approximately 61.3% of the issued share capital of CMD).

On 18 May 2017, the Company entered into a subscription agreement (the “**Subscription Agreement**”) with DBS Bank Ltd. and BOCI Asia Limited in connection with the issuance of bonds in the aggregate principle amount of US\$194,800,000 by the Company which are exchangeable into CMD Shares (the “**Bonds**”). On 5 August 2017, the Company entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, representing approximately 0.49% of the issued share capital of CMD as of the date of the Announcement.

Aggregating the effects of the issuance of the Bonds and the Disposal, upon Completion, (i) assuming that the Bonds are fully exchanged into CMD Shares at the initial notional price, the Company will hold approximately 49.5% of the issued share capital of CMD; and (ii) assuming that no Bonds are exchanged into CMD Shares, the Company will hold approximately 60.8% of the issued share capital of CMD.

## C. DISCLOSURE OF INTERESTS

**Directors' interests and short positions in the Shares, underlying shares and debentures of the Company or its associated corporations**

As at the Latest Practicable Date, the interests and short positions of each of the directors and the chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (the "**Associated Corporations**") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules were as follows:

*Long position in the Shares*

Name of Director	The Company/ Name of Associated Corporation	Nature of interest	Total number of ordinary shares	Percentage of the Company's/ the Associated Corporation's issued share capital
Jeffrey, Minfang Lu	The Company	Personal Interest	164,100 <sup>(1)</sup>	0.004% <sup>(2)</sup>
Bai Ying	The Company	Personal Interest	4,649,719 <sup>(3)</sup>	0.12% <sup>(2)</sup>
	Inner Mongolia Mengniu Dairy (Group) Company Limited	Personal Interest	336,151	0.02%
Wu Wenting	The Company	Personal Interest	70,300 <sup>(4)</sup>	0.002% <sup>(2)</sup>

*Notes:*

1. It included Shares granted to Mr. Jeffrey Minfang Lu under the restricted share award scheme of the Company.
2. The calculation is based on the number of shares as a percentage of the total number of issued Shares (i.e. 3,925,990,734 Shares) as at the Latest Practicable Date.
3. It included Shares granted to Mr. Bai Ying under the restricted share award scheme and the key management retention plan of the Company.
4. It included Shares granted to Ms. Wu Wenting under the restricted share award scheme of the Company.

*Long position in the underlying Shares*

Name of Director	Number of share options	Date of grant of share options	Exercise period of share options (both dates inclusive)	Exercise price of share options (in HK\$)	Percentage of the Company's issued share capital
<b>Executive Director</b>					
Jeffrey, Minfang Lu	865,000	13.07.2017	13.07.2018 to 12.07.2022	14.812	0.02% <sup>(1)</sup>
Wu Wenting	238,300	13.07.2017	13.07.2018 to 12.07.2022	14.812	0.006% <sup>(1)</sup>

*Note:* The calculation is based on the number of shares as a percentage of the total number of issued Shares (i.e. 3,925,990,734 Shares) as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the directors nor the chief executives of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed below, the Directors were not aware of any other Director who was a director or employee of a company which had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

<b>Name of Director</b>	<b>Title</b>	<b>Company</b>
Ma Jianping	Vice president	COFCO Corporation
	Deputy managing director	COFCO (Hong Kong) Limited
	Director	China Foods (Holdings) Limited
	Director	COFCO Dairy Holdings Limited
	Director	COFCO Dairy Investments Limited
	Director	Prominent Achiever Limited
	Director	Farwill Limited
Tim Ørting Jørgensen	Director	COFCO Dairy Holdings Limited
	Director	COFCO Dairy Investments Limited
	Director	Prominent Achiever Limited
	Executive vice president	Arla Foods Amba

#### **D. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

#### **E. LITIGATION**

As at the Latest Practicable Date, so far as the Directors were aware, no member of the Group was engaged in any litigation or arbitration or claim of material importance and the Directors were not aware of any litigation or claims of material importance pending or threatened against any member of the Group.

#### **F. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or may compete with the businesses of the Group (which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of the Company).

**G. INTEREST IN ASSETS AND CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any interest, directly or indirectly, in any assets which have been, since 31 December 2016 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

There is no contract or arrangement subsisting as at the date of this circular, in which any of the Directors are materially interested and which is significant to the business of the Group.

**H. QUALIFICATION AND CONSENT OF EXPERT**

The name and qualification of the professional adviser who has been named in this circular or given its opinion or advice which is contained in this circular is set forth below:

<b>Name</b>	<b>Qualification</b>
Somerley Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or reference to its name or opinion in the form and context in which it appears.

As at the Latest Practicable Date, the professional adviser above does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

**I. MATERIAL CONTRACTS**

Members of the Group had entered into the following material contracts (not being contracts entered into in the ordinary course of business) within two years immediately preceding the Latest Practicable Date:

- (a) the facility agreement dated 4 January 2017 entered into between the Company as the borrower and DBS Bank Ltd., Hong Kong Branch as the lender in respect of a US\$650,000,000 term loan facility;
- (b) the facility agreement dated 16 January 2017 entered into between the Company as the borrower and China Merchants Bank Co., Ltd., Hong Kong Branch as the lender in respect of a HK\$2,000,000,000 term loan facility;

- (c) the equity transfer agreement dated 21 September 2015 entered into between Yashili International Group Limited (“**Yashili Guangdong**”) and Inner Mongolia Mengniu Dairy (Group) Company Limited (“**Inner Mongolia Mengniu**”), a subsidiary of the Company, pursuant to which Yashili Guangdong agreed to purchase from Inner Mongolia Mengniu the entire equity interests in Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd for a consideration of RMB1,050 million (equivalent to approximately HK\$1,278 million);
- (d) the equity transfer agreement dated 1 December 2015 entered into between Yashili International Group Limited and Danone Asia Pacific Holdings Pte. Ltd. to acquire the entire equity interests in Dumex Baby Food Co., Ltd. for a consideration of EUR€150 million (equivalent to approximately HK\$1,230 million);
- (e) the conditional sale and purchase agreement dated 4 January 2017 entered into between the Company and Success Dairy II, a third party independent of and not connected with the Company, pursuant to which, the Company agreed to acquire from Success Dairy II 965,465,750 CMD Shares for a consideration of US\$241,475,350 (equivalent approximately HK\$1,873,003,555);
- (f) the subscription agreement dated 18 May 2017 entered into among the Company, DBS Bank Ltd. and BOCI Asia Limited in relation to the issue of zero-coupon exchangeable bonds due 2022 in the principal amount of US\$194,800,000 to be issued by the Company;
- (g) the securities lending agreement dated 18 May 2017 entered into between the Company as lender and BOCI Financial Products Limited as borrower for the lending of up to 689,438,782 CMD Shares in aggregate;
- (h) the trust deed dated 5 June 2017 entered into between the Company as issuer and The Hongkong and Shanghai Banking Corporation Limited as trustee in relation to the Bonds;
- (i) the paying, exchange and transfer agency agreement dated 5 June 2017 entered into among the Company as issuer, The Hongkong and Shanghai Banking Corporation Limited as principal agent and registrar and The Hongkong and Shanghai Banking Corporation Limited as trustee in relation to the Bonds; and
- (j) the Sale and Purchase Agreement.

**J. GENERAL**

- (a) The address of the registered office of the Company is at Maples Corporate Services Limited P.O. Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands.
- (b) The company secretary of the Company is Mr. Kwok Wai Cheong, Chris, a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants.
- (c) The Hong Kong Branch Share Registrar is at Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) In case of inconsistency, the English text of this circular shall prevail over the Chinese text.

**K. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during business hours at the principal place of business of the Company in Hong Kong at Suites 801-2, 8th Floor, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong, from the date of this circular and up to and including the date of the EGM:

- (a) the letter from the Independent Board Committee, the text of which is set out in page 14 of this circular;
- (b) the letter from the Independent Financial Adviser, the text of which is set out in pages 15 to 22 of this circular;
- (c) the written consent referred to under the paragraph headed "General Information – Qualification and Consent of Expert" in this Appendix II;
- (d) the memorandum and articles of association of the Company;
- (e) the annual reports of the Group referred to in Appendix I;
- (f) each of the material contracts referred to under the paragraph headed "General Information – Material Contracts" in this Appendix II; and
- (g) this circular.

**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)****NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN THAT** an extraordinary general meeting (“EGM”) of China Mengniu Dairy Company Limited (the “Company”) will be held at Granville Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Monday, 28 August 2017 at 3:00 p.m. to consider and, if thought fit, to pass with or without amendments the following ordinary resolution:

**ORDINARY RESOLUTION**

“THAT (a) the Sale and Purchase Agreement dated 5 August 2017 (a copy of which is marked “A” and signed by the chairman of the EGM for the purpose of identification) entered into between the Company and COFCO Dairy Investments Limited with respect to the sale of 30,000,000 ordinary shares in China Modern Dairy Holdings Ltd. (stock code: 1117) for a consideration of HK\$41.4 million and all the transactions contemplated thereunder or in relation thereto be and are hereby approved, confirmed and/or ratified (as the case may be); and (b) any one or more of the directors and/or the company secretary of the Company be and is/are hereby generally and unconditionally authorized to do all such acts and things, to sign and execute all such documents for and on behalf of the Company and to take such steps as he/they may in his/their absolute discretion consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Sale and Purchase Agreement and the transactions contemplated thereunder or in relation thereto.”

By order of the Board

**Jeffrey, Minfang Lu***Chief Executive Officer and Executive Director*

Hong Kong, 11 August 2017

*Notes:*

- (1) Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company. All proxies, together with powers of attorney or other authorities, if any, under which they are signed or notarially certified copies thereof, must be deposited with the Company’s branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not later than 48 hours before the time of the EGM. Completion and delivery of the proxy form will not preclude a member from attending and voting in person at the meeting if he so wishes.

\* *For identification purpose only*

- (2) The register of members of the Company will be closed from Friday, 25 August 2017 to Monday, 28 August 2017 both days inclusive, for the purpose of ascertaining shareholders' eligibility to attend and vote at the EGM. In order to be eligible to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 24 August 2017.
- (3) Where there are joint registered holders of any issued ordinary share of the Company, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share of the Company as if he were solely entitled thereto; but if more than one of such joint holders are present at any meeting personally or by proxy, that the more senior shall alone be entitled to vote in respect of such share of the Company and, for this purpose, seniority shall be determined by the order in which the names of the joint holders stand on the register of the relevant joint holding.