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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)

**DISCLOSEABLE TRANSACTION
DISPOSAL OF A SUBSIDIARY**

PROPOSED DISPOSAL OF A SUBSIDIARY

The Board announces that on 30 June 2019, Inner Mongolia Mengniu entered into the Share Transfer Agreement with the Purchasers, pursuant to which Inner Mongolia Mengniu agreed to sell, and the Purchasers agreed to purchase, 51% of the entire registered capital in Shijiazhuang Junlebao Dairy Co., Ltd., being the Target Company, for an aggregate consideration of RMB4,011,319,119.41, payable in cash.

In addition, on 21 June 2019, the Target Company has declared and paid a special cash dividend of RMB1,114,668,393, of which RMB568,480,881 was paid to Inner Mongolia Mengniu. Accordingly, the total cash proceeds received and to be received by Inner Mongolia Mengniu from the Target Company and the Purchasers as a result of the Proposed Disposal are RMB4,579,800,000.

Upon completion, the Group will cease to have any equity interest in the Target Company and accordingly, the Target Company will cease to be a subsidiary of the Company.

LISTING RULES IMPLICATIONS

As one or more of applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Proposed Disposal is more than 5% but all of them are less than 25%, the Proposed Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

THE SHARE TRANSFER AGREEMENT

The Board announces that on 30 June 2019, Inner Mongolia Mengniu entered into the Share Transfer Agreement with the Purchasers, pursuant to which Inner Mongolia Mengniu agreed to sell, and the Purchasers agreed to purchase, the Sale Shares for an aggregate consideration of RMB4,011,319,119.41, payable in cash.

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

Date

30 June 2019

Parties

Inner Mongolia Mengniu, as seller
Penghai PE and Junqian Management, as purchasers

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchasers and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Subject Matter

Pursuant to the Share Transfer Agreement, Inner Mongolia Mengniu has conditionally agreed to sell, and the Purchasers have conditionally agreed to purchase, the Sale Shares, representing approximately 51% equity interest in the Target Company as of the date of this announcement. Pursuant to the Share Transfer Agreement, Penghai PE and Junqian Management will acquire 26.6994% and 24.3006% equity interest in the Target Company, respectively.

The Target Company is a limited liability company established in the PRC which is primarily engaged in the business of manufacturing and sale of dairy products. As of the date of this announcement, the Target Company is owned as to 51% by Inner Mongolia Mengniu and 49% by two third parties.

Consideration

The aggregate consideration for the Proposed Disposal is RMB4,011,319,119.41, which is payable by Penghai PE and Junqian Management in the amount of RMB2,100,000,000 and RMB1,911,319,119.41 in cash, respectively. The consideration was determined on the basis of normal commercial terms and after arm's length negotiation between the Company and the Purchasers, taking into account prevailing market conditions, the Target Company's historical financial performance and business prospects, as well as the special cash dividend that Inner Mongolia Mengniu received from the Target Company on 21 June 2019.

Conditions Precedent

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

- (a) all representations and warranties of each party to the Share Transfer Agreement remaining true, accurate and valid in all material aspects;
- (b) the Share Transfer Agreement having taken effects;

(c) each party having the civil capacity in execution of the Share Transfer Agreement and the performance of his obligations thereunder, and each party having obtained all necessary authorization, approvals and consents for this purpose;

(d) there being no judgement, order or injunction under PRC laws, or issued by any PRC court, arbitration authority, or relevant government authority which imposes restrictions or prohibitions, or invalidates the Proposed Disposal; and

(e) the Proposed Disposal having obtained anti-trust approval from the competent PRC authority.

The conditions precedents in respect of a party may be waived by another party by way of serving a notice. If any of the conditions precedents has not been satisfied or waived within 180 days from the date of signing of the Share Transfer Agreement, any party has the right to serve a written notice to terminate the Share Transfer Agreement.

Completion

Completion shall take place within ten (10) business days after all conditions precedent having been fulfilled or waived as the case may be. At completion, the Purchasers shall pay their respective amounts of consideration to Inner Mongolia Mengniu's designated bank account by wire transfer in cash.

Upon completion, the Group will cease to have any equity interest in the Target Company and accordingly, the Target Company will cease to be a subsidiary of the Company.

Termination

If any of the conditions precedents has not been satisfied or waived within 180 days from the date of signing of the Share Transfer Agreement, any party has the right to serve a written notice to terminate the Share Transfer Agreement. The Share Transfer Agreement may also be terminated by mutual agreement between the parties.

SPECIAL CASH DIVIDEND

On 21 June 2019, the Target Company has declared and paid a special cash dividend of RMB1,114,668,393, of which RMB568,480,881 was paid to Inner Mongolia Mengniu.

TOTAL CASH PROCEEDS RECEIVED AS A RESULT OF THE PROPOSED DISPOSAL

The total cash proceeds received and to be received by Inner Mongolia Mengniu from the Target Company and the Purchasers as a result of the Proposed Disposal are RMB4,579,800,000.

INFORMATION ON INNER MONGOLIA MENGNIU, THE GROUP AND THE PURCHASERS

Inner Mongolia Mengniu is a company established in the PRC and a subsidiary of the Company. It is primarily engaged in the manufacturing and sale of dairy products. 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.

Penghai PE is a limited partnership established under the laws of the PRC and is primarily engaged in non-security equity investment as a trustee and providing related consulting services.

Junqian Management is a limited liability company established under the laws of the PRC and is primarily engaged in providing corporate management consulting and other services.

REASONS FOR AND BENEFITS OF THE PROPOSED DISPOSAL

The Directors are of the view that the Proposed Disposal is in line with the development strategy of the Company to continually focus on premium dairy products. The Group has a strong portfolio of brands and it believes the Proposed Disposal will help strengthen the Group's overall financial position through optimizing brand portfolio to focus on core businesses and expansion of premium dairy products with high growth and margin prospects.

Since the Company acquired 51% of the shares in the Target Company in late 2010, the Target Company has been operating relatively independently under its own brand in the past few years and there have been limited synergies between the Target Company and the Group. In addition, the Directors are of the view that given differences in product positioning, the Proposed Disposal would help the Company streamline its businesses and focus its resources on accelerating expansion of premium products and solidifying market position in core brands.

The Company expects that the Proposed Disposal would strengthen the Group's balance sheet and its overall financial position. The Company currently intends to utilize the proceeds from the Proposed Disposal as the Group's general working capital as well as facilitating future investment opportunities.

The Directors (including the independent non-executive Directors) consider that the Proposed Disposal is conducted on normal commercial terms and the terms of the Share Transfer Agreement and the Proposed Disposal are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

The net asset value of the Target Company included in the Group's consolidated financial statements as at 31 December 2018 was RMB2,235,881,000. The net profits before and after tax and extraordinary items attributable to the Target Company included in the Group's consolidated financial statements for each of the two years ended 31 December 2017 and 2018 were as follows:

| | Net profits before taxation and extraordinary items RMB | Net profits after taxation and extraordinary items RMB |
|-------------------------------------|---|--|
| For the year ended 31 December 2017 | 225,874,000 | 192,819,000 |
| For the year ended 31 December 2018 | 379,239,000 | 307,427,000 |

It is expected that, upon completion of the Proposed Disposal, the Company will record an estimated gain of approximately RMB3,429,019,119 before taxation, being RMB4,011,319,119 as the consideration for the Proposed Disposal minus (1) RMB329,830,000 as the share of the net assets value of the Target Company attributable to the Company as of 30 June 2019 and (2) RMB252,470,000 as the relevant goodwill arising from the acquisition of the shares of the Target Company by the Company. The actual gain or loss to be recorded by the Company is subject to audit.

LISTING RULES IMPLICATIONS

As one or more of applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Proposed Disposal is more than 5% but all of them are less than 25%, the Proposed Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

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| “Board” | the board of directors of the Company |
| “Company” | China Mengniu Dairy Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 2319) |
| “connected person” | has the meaning ascribed to it under the Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “Group” | the Company and its subsidiaries |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Inner Mongolia Mengniu” | Inner Mongolia Mengniu Dairy (Group) Company Limited* (內蒙古蒙牛乳業(集團)股份有限公司), a company established in the PRC and a subsidiary of the Company |
| “Junqian Management” | Shijiazhuang Junqian Enterprises Management Corporation Ltd.* (石家莊君乾企業管理股份有限公司) being a Purchaser under the Share Transfer Agreement |

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| “Listing Rules” | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) |
| “Penghai PE” | Shijiazhuang Penghai Venture Capital Fund (Limited Partnership)* (石家莊鵬海創業投資基金(有限合夥)), being a Purchaser under the Share Transfer Agreement |
| “PRC or China” | the People’s Republic of China, which for the purpose of this announcement, shall not include Hong Kong, Macau Special Administrative Region of the PRC and Taiwan |
| “Proposed Disposal” | the proposed disposal of the Sale Shares by Inner Mongolia Mengniu to the Purchasers pursuant to the Share Transfer Agreement |
| “Purchasers” | Penghai PE and Junqian Management |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Sale Shares” | 51% of the entire registered capital in the Target Company owned indirectly by Inner Mongolia Mengniu |
| “Share Transfer Agreement” | the share transfer agreement dated 30 June 2019 between Inner Mongolia Mengniu and the Purchasers regarding the Proposed Disposal |
| “Target Company” | Shijiazhuang Junlebao Dairy Co., Ltd.* (石家莊君樂寶乳業有限公司) |
| “%” | per cent |

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

Hong Kong, 1 July 2019

As at the date of this announcement, the Board comprises Mr. Jeffrey, Minfang Lu and Mr. Meng Fanjie as executive directors; Mr. Chen Lang, Mr. Niu Gensheng, Mr. Tim Ørting Jørgensen and Mr. Pascal De Petrini as non-executive directors; and Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Zhang Xiaoya and Mr. Yau Ka Chi as independent non-executive directors..

** For identification purposes only*