



# CHINA MENGNIU DAIRY COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 2319)

## DISCLOSEABLE TRANSACTIONS FORMATION OF FRESH DAIRY PRODUCTS JOINT VENTURES WITH DANONE

### RESUMPTION OF TRADING

On 18 December 2006, Inner Mongolia Mengniu, Beijing Mengniu and Ma'anshan Mengniu have respectively entered into the Joint Venture Contracts with Danone in relation to the formation of the Joint Ventures for the production and sale of Fresh Dairy Products in the PRC.
The Group's total investment under the Joint Venture Contracts constitutes a discloseable transaction pursuant to Rule 14.06(2) of the Listing Rules. A circular containing further information on the Joint Venture Contracts as required under Rule 14.38 of the Listing Rules will be despatched to the shareholders of the Company within 21 days after the publication of this announcement.
At the request of the Company, trading in the shares of the Company was suspended at 9:30 a.m. on 18 December 2006 pending the release of this announcement which is price sensitive in nature. An application has been made by the Company to the Stock Exchange for the resumption of trading of the shares of the Company from 9:30 a.m. on 19 December 2006.

#### JOINT VENTURE CONTRACTS ALL DATED 18 DECEMBER 2006

On 18 December 2006, Inner Mongolia Mengniu entered into the Inner Mongolia Contract with Danone for the formation of Mengniu Danone (Hohhot); Beijing Mengniu entered into the Beijing Contract with Danone for the formation of Mengniu Danone (Beijing); and Ma'anshan Mengniu entered into the Ma'anshan Contract with Danone for the formation of Mengniu Danone (Ma'anshan). Pursuant to the Joint Venture Contracts, the Joint Ventures will be formed to produce, market, distribute and sell Fresh Dairy Products in the PRC.

A summary of the principal terms of each of the Joint Venture Contracts is set out below.

##### Parties

*Inner Mongolia Contract:*

- (a) Inner Mongolia Mengniu
- (b) Danone

*Beijing Contract:*

- (a) Beijing Mengniu
- (b) Danone

*Ma'anshan Contract:*

- (a) Ma'anshan Mengniu
- (b) Danone

The Directors confirm that to the best of their knowledge, information and belief having made all reasonable enquiries, Danone and its ultimate beneficial owners are third parties independent of and not connected with the Company or the connected persons (as defined in the Listing Rules) of the Company. The Directors further confirm that to the best of their knowledge, information and belief having made all reasonable enquiries, other than their respective participation in the Joint Ventures, each of Danone and its ultimate beneficial owners does not have any relationship or previous dealings with any member of the Group.

##### Shareholdings and Parties' capital contributions

*Mengniu Danone (Hohhot):*

The total investment and registered capital of Mengniu Danone (Hohhot) are approximately RMB195.7 million (equivalent to approximately HK\$194.5 million) and approximately RMB72 million (equivalent to approximately HK\$71.6 million) respectively. Mengniu Danone (Hohhot) will be owned as to 51% by Inner Mongolia Mengniu and 49% by Danone. Inner Mongolia Mengniu's contribution of approximately RMB36.7 million (equivalent to approximately HK\$36.5 million) will consist of assets in relation to the FDP Business of Inner Mongolia Mengniu (mainly production equipment). These assets will be valued at their respective net book value at Closing. Any shortfall between the value of the contributed assets and Inner Mongolia Mengniu's commitment will be made up by an amount of cash equal to the shortfall. The contribution of Danone in the amount of approximately RMB35.3 million (equivalent to approximately HK\$35.1 million) will be in the form of cash.

In addition to the above, Danone will at Closing further contribute approximately RMB13.7 million (equivalent to approximately HK\$13.6 million) in cash to Mengniu Danone (Hohhot) which will be recorded in the capital common reserve fund of Mengniu Danone (Hohhot). Inner Mongolia Mengniu will also, and will procure Tai'an Mengniu, Jiaozuo Mengniu and Shenyang Mengniu to, transfer their respective Intangibles and assign or otherwise transfer their respective contracts, licences and other commitments in connection with the FDP Business to Mengniu Danone (Hohhot) at Closing. In compliance with the relevant accounting standards, the Intangibles were not recorded in the financial statements of Inner Mongolia Mengniu, Tai'an Mengniu, Jiaozuo Mengniu or Shenyang Mengniu. Thus, the cap amount of the contribution of Inner Mongolia Mengniu under the Inner Mongolia Contract is 51% of the registered capital of Mengniu Danone (Hohhot) as set out above.

Save as the above, each of Inner Mongolia Mengniu and Danone has no other capital commitment in respect of Mengniu Danone (Hohhot). The contributions by Inner Mongolia Mengniu and Danone as mentioned above will be completed at Closing.

*Mengniu Danone (Beijing):*

The total investment and registered capital of Mengniu Danone (Beijing) are approximately RMB704.4 million (equivalent to approximately HK\$700.2 million) and RMB366 million (equivalent to approximately HK\$363.8 million) respectively. Mengniu Danone (Beijing) will be owned as to 51% by Beijing Mengniu and 49% by Danone. Beijing Mengniu's contribution of approximately RMB186.7 million (equivalent to approximately HK\$185.6 million) will consist of assets in relation to the FDP Business of Beijing Mengniu (mainly production building and equipment) and the Beijing Property. These assets (other than the Beijing Property) will be valued at their respective net book value at Closing. The Beijing Property has been valued at approximately RMB30.7 million (equivalent to approximately HK\$30.5 million) as at 9 November 2006 as determined by an independent appraiser. Any shortfall between the value of the contributed assets and Beijing Mengniu's commitment will be made up by an amount of cash equal to the shortfall. The contribution of Danone in the amount of approximately RMB179.3 million (equivalent to approximately HK\$178.2 million) will be in the form of cash.

In addition to the above, Danone will at Closing further contribute approximately RMB41.1 million (equivalent to approximately HK\$40.9 million) in cash to Mengniu Danone (Beijing) which will be recorded in the capital common reserve fund of Mengniu Danone (Beijing). Beijing Mengniu will also transfer its Intangibles and assign or otherwise transfer its trademarks, contracts, licences and other commitments in connection with the FDP Business to Mengniu Danone (Beijing) at Closing. In compliance with the relevant accounting standards, the Intangibles were not recorded in the financial statements of Beijing Mengniu. Thus, the cap amount of the contribution of Beijing Mengniu under the Beijing Contract is 51% of the registered capital of Mengniu Danone (Beijing) as set out above.

Save as the above, each of Beijing Mengniu and Danone has no other capital commitment in respect of Mengniu Danone (Beijing). The contributions by Beijing Mengniu and Danone as mentioned above will be completed at Closing.

*Mengniu Danone (Ma'anshan):*

The total investment and registered capital of Mengniu Danone (Ma'anshan) are approximately RMB704.4 million (equivalent to approximately HK\$700.2 million) and approximately RMB310 million (equivalent to approximately HK\$308.2 million) respectively. Mengniu Danone (Ma'anshan) will be owned as to 51% by Ma'anshan Mengniu and 49% by Danone. Ma'anshan Mengniu's contribution of approximately RMB158.1 million (equivalent to approximately HK\$157.2 million) will consist of assets in relation to the FDP Business of Ma'anshan Mengniu (mainly production building and equipment) and the Ma'anshan Property. These assets (other than the Ma'anshan Property) will be valued at their respective net book value at Closing. The Ma'anshan Property has been valued at approximately RMB22.2 million (equivalent to approximately HK\$22.1 million) as at 7 November 2006 as determined by an independent appraiser. Any shortfall between the value of the contributed assets and Ma'anshan Mengniu's commitment will be made up by an amount of cash equal to the shortfall. The contribution of Danone in the amount of approximately RMB151.9 million (equivalent to approximately HK\$151.0 million) will be in the form of cash.

In addition to the above, Danone will at Closing further contribute approximately RMB82.2 million (equivalent to approximately HK\$81.7 million) in cash to Mengniu Danone (Ma'anshan) which will be recorded in the capital common reserve fund of Mengniu Danone (Ma'anshan). Ma'anshan Mengniu will also transfer its Intangibles and assign or otherwise transfer its contracts, licences and other commitments in connection with the FDP Business to Mengniu Danone (Ma'anshan) at Closing. In compliance with the relevant accounting standards, the Intangibles were not recorded in the financial statements of Ma'anshan Mengniu. Thus, the cap amount of the contribution of Ma'anshan Mengniu under the Ma'anshan Contract is 51% of the registered capital of Mengniu Danone (Ma'anshan) as set out above.

Save as the above, each of Ma'anshan Mengniu and Danone has no other capital commitment in respect of Mengniu Danone (Ma'anshan). The contributions by Ma'anshan Mengniu and Danone as mentioned above will be completed at Closing.

##### Conditions precedent to Closing

Closing of the Joint Venture Contracts are subject to, among others, the Joint Venture Contracts and the articles of association of the Joint Ventures having been approved by the relevant PRC approval authorities, the business licenses of the Joint Ventures having been issued and the Joint Ventures having obtained all necessary licenses and approvals for the conduct of their respective businesses.

If the conditions precedent are not fulfilled by 18 December 2007 (or such other date as may be agreed by the Parties), all the Joint Venture Contracts shall be terminated.

##### Further financing

In the event that any of the Joint Ventures requires additional funds, the board of directors of the relevant Joint Venture will determine the most appropriate way of funding at the relevant time, which includes but not limited to loans from the Parties or other independent third parties. However, none of the Parties is under any contractual obligation to provide any further financing to the Joint Ventures.

##### Board representation

*Mengniu Danone (Hohhot):*

The board, being the highest authority of Mengniu Danone (Hohhot), will consist of eight directors. Each of Inner Mongolia Mengniu and Danone will have the right to appoint four directors. The Chairman will be appointed by Inner Mongolia Mengniu and the Vice-Chairman will be appointed by Danone. The Chairman will have a casting vote except for the Reserved Matters specified in the Inner Mongolia Contract.

Decisions regarding the marketing, branding, product development and distribution activities of Mengniu Danone (Hohhot) will be delegated to a strategic committee which will comprise of two directors appointed by Inner Mongolia Mengniu and two directors appointed by Danone. The chairman of the committee will be appointed by Danone who will have a casting vote.

*Mengniu Danone (Beijing):*

The board, being the highest authority of Mengniu Danone (Beijing), will consist of eight directors. Each of Beijing Mengniu and Danone will have the right to appoint four directors. The Chairman will be appointed by Beijing Mengniu and the Vice-Chairman will be appointed by Danone. The Chairman will have a casting vote except for the Reserved Matters specified in the Beijing Contract.

Decisions regarding the marketing, branding, product development and distribution activities of Mengniu Danone (Beijing) will be delegated to a strategic committee which will comprise of two directors appointed by Beijing Mengniu and two directors appointed by Danone. The chairman of the committee will be appointed by Danone who will have a casting vote.

*Mengniu Danone (Ma'anshan):*

The board, being the highest authority of Mengniu Danone (Ma'anshan), will consist of eight directors. Each of Ma'anshan Mengniu and Danone will have the right to appoint four directors. The Chairman will be appointed by Ma'anshan Mengniu and the Vice-Chairman will be appointed by Danone. The Chairman will have a casting vote except for the Reserved Matters specified in the Ma'anshan Contract.

Decisions regarding the marketing, branding, product development and distribution activities of Mengniu Danone (Ma'anshan) will be delegated to a strategic committee which will comprise of two directors appointed by Ma'anshan Mengniu and two directors appointed by Danone. The chairman of the committee will be appointed by Danone who will have a casting vote.

##### Term of the Joint Ventures

The initial term of each of the Joint Ventures is 50 years commencing from the date on which the business licence of the relevant Joint Venture is issued. The term of the Joint Ventures can be extended subject to agreement among the relevant Parties.

##### REASONS FOR AND BENEFITS OF THE JOINT VENTURE CONTRACTS

The Group is principally engaged in the manufacture and distribution of quality dairy products in the PRC. It is one of the leading dairy product manufacturers in the PRC, with **MENGNIU** as its core brand. The Group's diverse products include liquid milk products, such as ultra-high temperature milk, yogurt and milk beverages, ice cream and other dairy products such as milk powder.

Danone is a direct subsidiary of Groupe Danone, the securities of which are listed on the New York Stock Exchange. The Danone group is principally engaged in the production of fresh dairy products (including yogurt), bottled water and biscuit. In terms of sales volume, the Danone group is the world leader in fresh dairy products and bottled water and the second largest manufacturer in the biscuit market worldwide.

The formation of the Joint Ventures represents an excellent opportunity for the Group to partner with Groupe Danone, a premier industry leader. The Group can leverage on the partner's expertise and strengths to significantly enhance its competitiveness in the manufacturing of Fresh Dairy Products, and research and development of its FDP Business. With the Group's expertise in marketing and the extensive distribution network, the Joint Ventures will continue to explore and develop the great potential of the Fresh Dairy Product market.

The Directors (including the independent non-executive Directors) are of the view that the terms of each of the Joint Venture Contracts, which were negotiated on an arm's length basis, are fair and reasonable and of normal commercial terms and the Group's participation thereunder is in the best interest of the Company and its shareholders as a whole.

To the extent that the Group is required to make any contribution under the Joint Venture Contracts in the form of cash, the relevant contributions of the Group will be funded principally by the Group's internal resources.

In connection with the establishment of the Joint Ventures, the Parties and the Joint Ventures will enter into a number of auxiliary contracts in relation to, among others, provision of utilities services, leasing of land and office buildings, trademark and technology licensing and other arrangements. The Company will comply with the Listing Rules applicable to the Company in relation to such auxiliary contracts.

LISTING RULES IMPLICATIONS

The Group’s total investment under the Joint Venture Contracts constitutes a discloseable transaction of the Company pursuant to 14.06(2) of the Listing Rules. A circular containing further details of the Joint Venture Contracts as required under Rule 14.38 of the Listing Rules will be despatched to the shareholders of the Company within 21 days after the publication of this announcement.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company was suspended at 9:30 a.m. on 18 December 2006 pending the release of this announcement which is price sensitive in nature. An application has been made by the Company to the Stock Exchange for the resumption of trading of the shares of the Company from 9:30 a.m. on 19 December 2006.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires.

“Beijing Contract”	an agreement dated 18 December 2006 entered into between Beijing Mengniu and Danone in relation to their co-investment in Mengniu Danone (Beijing)
“Beijing Mengniu”	Mengniu Dairy (Beijing) Co., Ltd. (蒙牛乳業(北京)有限責任公司), a limited liability company organized under PRC law and an indirect non-wholly owned subsidiary of the Company
“Beijing Property”	the land use rights of the land on which the existing production activities in relation to Fresh Dairy Products are carried out by Beijing Mengniu
“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
“Closing”	closing of the transactions as contemplated in the Joint Venture Contracts
“Danone”	Compagnie Gervais Danone, a limited liability company established under the laws of France and a direct subsidiary of Groupe Danone
“Directors”	directors of the Company
“FDP Business”	business of manufacturing, marketing, distributing and/or selling Fresh Dairy Products
“Fresh Dairy Products”	milk based food or beverage products which require refrigeration during their distribution and for their preservation (frozen products such as ice-cream, and traditional and processed cheese are excluded), including but not limited to pasteurised milk, yogurts (whether containing probiotics ferments or not), quark range of products, milk based desserts and snacks, and milk based drinks (whether fermented or not), irrespective of the type of packaging of such products
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Inner Mongolia Contract”	an agreement dated 18 December 2006 entered into between Inner Mongolia Mengniu and Danone in relation to their co-investment in Mengniu Danone (Hohhot)
“Inner Mongolia Mengniu”	Inner Mongolia Mengniu Dairy (Group) Co., Ltd. (內蒙古蒙牛乳業(集團)股份有限公司), a limited liability company organized under PRC law and an indirect non-wholly owned subsidiary of the Company
“Intangibles”	technology, systems, expertise, know-how, resources, materials and information in relation to the FDP Business
“Jiaozuo Mengniu”	Mengniu Dairy Jiaozuo Co., Ltd. (蒙牛乳業焦作有限責任公司), a sino-foreign equity joint venture limited liability company incorporated in the PRC and an indirect non-wholly owned subsidiary of the Company
“Joint Ventures”	Mengniu Danone (Hohhot), Mengniu Danone (Beijing) and Mengniu Danone (Ma’anshan)
“Joint Venture Contracts”	the Inner Mongolia Contract, the Beijing Contract and the Ma’anshan Contract
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ma’anshan Contract”	an agreement dated 18 December 2006 entered into between Ma’anshan Mengniu and Danone in relation to their co-investment in Mengniu Danone (Ma’anshan)
“Ma’anshan Mengniu”	Mengniu Dairy (Ma’anshan) Co., Ltd. (蒙牛乳業(馬鞍山)有限公司), a limited liability company organized under PRC law and an indirect non-wholly owned subsidiary of the Company
“Ma’anshan Property”	the land use rights of the land on which the existing production activities in relation to Fresh Dairy Products are carried out by Ma’anshan Mengniu
“Macau”	the Macau Special Administrative Region of the PRC
“Mengniu Danone (Beijing)”	Mengniu Danone (Beijing) Dairy Co., Ltd. (蒙牛達能(北京)乳業有限公司), a sino-foreign equity joint venture of limited liability to be established pursuant to the Beijing Contract
“Mengniu Danone (Hohhot)”	Mengniu Danone (Hohhot) Dairy Co., Ltd. (蒙牛達能(呼和浩特)乳業有限公司), a sino-foreign equity joint venture of limited liability to be established pursuant to the Inner Mongolia Contract
“Mengniu Danone (Ma’anshan)”	Mengniu Danone (Ma’anshan) Dairy Co., Ltd. (蒙牛達能(馬鞍山)乳業有限公司), a sino-foreign equity joint venture of limited liability to be established pursuant to the Ma’anshan Contract
“Parties”	named parties to the Joint Venture Contracts
“PRC”	People’s Republic of China which, for the purpose of this announcement, includes Hong Kong and Macau but excludes Taiwan
“Reserved Matters”	the matters specified in the relevant Joint Venture Contract which the Chairman of the relevant Joint Venture does not have a casting vote over their determination. Such matters include, but not limited to, any lease, assignment and disposal of asset, incurrence of debt, creation of encumbrance or entry into a related-party transaction by the relevant Joint Venture with an amount which exceeds the threshold as specified in the relevant Joint Venture Contract, but exclude any day-to-day operational matters determined in the relevant Joint Venture’s annual budget
“RMB”	Renminbi, the lawful currency of the PRC
“Shenyang Mengniu”	Mengniu Dairy (Shenyang) Co., Ltd. (蒙牛乳業(瀋陽)有限責任公司), a sino-foreign equity joint venture limited liability company incorporated in the PRC and an indirect non-wholly owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tai’an Mengniu”	Mengniu Dairy Tai’an Co., Ltd. (蒙牛乳業泰安有限責任公司), a sino-foreign equity joint venture limited liability company incorporated in the PRC and an indirect non-wholly owned subsidiary of the Company

By order of the Board  
**Yang Wenjun**  
Director

Hong Kong, 18 December 2006

As at the date of this announcement, the Executive Directors are Mr. Niu Gensheng, Ms. Lu Jun, Mr. Yang Wenjun and Mr. Sun Yubin. The Non-executive Directors are Mr. Jiao Shuge (alias Jiao Zhen) and Mr. Julian Juul Wolhardt. The Independent Non-executive Directors are Mr. Wang Huaibao, Mr. Zhang Julin and Mr. Li Jianxin.

In this announcement, the exchange rate of RMB1.006 to HK\$1 is used.