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CHINA MENGNIU DAIRY COMPANY LIMITED

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

PLACING OF EXISTING SHARES SUBSCRIPTION FOR NEW SHARES AND RESUMPTION OF TRADING PLACING AGENT



On 13 April 2007, (i) Yinniu, the Company and the Placing Agent entered into the Yinniu Placing Agreement. Under the Yinniu Placing Agreement, the Placing Agent has conditionally agreed to place, on a fully underwritten basis, the Yinniu Placing Shares, representing approximately 7.17% of the issued share capital of the Company as at the date of this announcement, at the Placing Price to independent placees; and (ii) Jinniu and the Placing Agent entered into the Jinniu Placing Agreement. Under the Jinniu Placing Agreement, the Placing Agent has conditionally agreed to place, on a fully underwritten basis, the Jinniu Placing Shares, representing approximately 1.08% of the issued share capital of the Company as at the date of this announcement, at the Placing Price to independent placees.

On the same day, Yinniu and the Company entered into the Subscription Agreement under which, Yinniu will, within 14 days of the date of the Yinniu Placing Agreement, subscribe for 57,460,000 new Shares, representing approximately 4.20% of the existing issued share capital of the Company and 4.03% of the enlarged issued share capital of the Company immediately after the issue and allotment of the New Shares.

The net proceeds of the Subscription amount to approximately HK\$1,363 million. The Company intends to apply approximately HK\$681.5 million for expansion of its production capacity, approximately HK\$480 million for potential merger and acquisition activities should suitable opportunities arise and the remaining approximately HK\$201.5 million for general working capital purposes. As at the date of this announcement, no specific merger or acquisition target has been identified.

The Subscription is conditional upon, among other things, the Stock Exchange granting listing of, and permission to deal in, the New Shares. The New Shares are proposed to be issued pursuant to the existing general mandate given to the Directors to allot and issue Shares.

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 13 April 2007 pending the release of this announcement. Application has been made for the resumption of trading of the Shares on the Stock Exchange at 9:30 a.m. on 16 April 2007.

YINNIU PLACING AGREEMENT

Date: 13 April 2007
Vendor: Yinniu
Placing Agent: BNP Paribas Capital (Asia Pacific) Limited
Company: China Mengniu Dairy Company Limited

Number of Yinniu Placing Shares to be placed

98,086,000 existing Shares, representing approximately 7.17% of the existing issued share capital of the Company and approximately 6.88% of the issued share capital as enlarged by the Subscription.

JINNIU PLACING AGREEMENT

Date: 13 April 2007
Vendor: Jinniu
Placing Agent: BNP Paribas Capital (Asia Pacific) Limited

Number of Jinniu Placing Shares to be placed

14,796,000 existing Shares, representing approximately 1.08% of the existing issued share capital of the Company and approximately 1.04% of the issued share capital as enlarged by the Subscription.

Underwriting

The Placing is fully underwritten by the Placing Agent.

Placing Price

The Placing Price was agreed after arm’s length negotiations between the Company, the Vendors and the Placing Agent.

The Placing Price of HK\$24.00 per Share represents a discount of about 3.42% to the closing price of HK\$24.85 per Share quoted on the Stock Exchange on 12 April 2007, being the latest trading day prior to the date of the Placing Agreements, a premium of 2.78% to the average closing price of HK\$23.35 per Share as quoted on the Stock Exchange from 3 April 2007 to 12 April 2007, both dates inclusive, being the five trading days immediately preceding and including the date of this announcement and a premium of 4.17% to the average closing price of HK\$23.04 per Share as quoted on the Stock Exchange from 27 March 2007 to 12 April 2007, both dates inclusive, being the ten trading days immediately preceding and including the date of this announcement.

The Placing Agent

The Placing Agent (and its ultimate beneficial owners) are independent of and not connected with the Company and its connected persons (as defined in the Listing Rules).

The Placees

The placees (and their respective ultimate beneficial owners) will not be connected persons of the Company (as defined in the Listing Rules) and are not acting in concert (as defined in the Takeovers Code) with the Vendors. The Placing Agent confirms that there will not be less than six independent placees and no placee will become a substantial shareholder (as defined in the Listing Rules) of the Company immediately after the Placing.

Rights attached to Placing Shares

The Placing Shares will be sold free from all liens, charges and encumbrance, and together with all rights attaching to the Placing Shares, including the right to dividend and other distribution declared, made or paid on or after the Closing Date.

Conditions of the Placing

The Yinniu Placing Agreement and the Jinniu Placing Agreement are inter-conditional.

Completion is conditional upon:

- (a) there shall not have occurred prior to Completion any material breach of, or any event rendering untrue or incorrect in a material manner, any of the representations, warranties, undertakings or other provisions of the Placing Agreements with respect to the Vendors and the Company; and
- (b) (i) trading generally not having been suspended or materially limited on, or by, as the case may be, any of the New York Stock Exchange or the Stock Exchange, (ii) trading of any securities of the Company not having been suspended on any exchange or in any over the counter market on the Closing Date other than as a result of the Placing and, (iii) a material disruption in securities settlement, payment or clearance services in the United States or Hong Kong not having occurred, (iv) any moratorium on commercial banking activities not having been declared by Federal or New York State or Hong Kong authorities, (v) there not having occurred any outbreak or escalation of hostilities, or any prospective material adverse change in Hong Kong’s financial markets, change in currency exchange rates causing material fluctuation in the value of the Hong Kong currency or Renminbi against any foreign currencies or controls or any calamity or crisis in the United States, Hong Kong or the People’s Republic of China or (vi) since 31 December 2006 there has been no material adverse change, nor any development involving a prospective material adverse change, in the business, operations, financial conditions or prospects of the Group taken as a whole that, in the Placing Agent’s judgment, is material and adverse and which, singly or together with any other event specified in the Placing Agreements, makes it, in the Placing Agent’s judgment, impracticable or inadvisable to proceed with the offer, sale or delivery of the Shares on the terms and in the manner contemplated in the Placing Agreements.

If any of such conditions shall not have been fulfilled or waived by the Placing Agent by Completion, the Placing Agreements and the obligations of the Placing Agent thereunder shall cease and terminate and no party shall be under any liability to any other for costs, damages, charges, compensation or otherwise under the Placing Agreements, except in relation to obligations, agreements and liabilities arising prior to such termination.

Completion of the Placing

Completion of the Placing is expected to take place on 18 April 2007.

Lock-up

Each of the Vendors has undertaken to the Placing Agent that from the date of the Placing Agreements and on or prior to the date being 90 days after the date of the Placing Agreements, it will not and will procure that none of its nominees or companies controlled by it or trusts associated with it (whether individually or together and whether directly or indirectly) will, (A) offer, pledge, issue, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares

held by it as at the date of publication of this announcement or any interests therein or any securities convertible into or exercisable or exchangeable for any such Shares or interests, or (B) enter into any swap or similar agreement that transfers to another, in whole or in part, the economic risk of ownership of such Shares, whether any such transaction described in (A) or (B) above is to be settled by delivery of shares in the Company or such other securities, in cash or otherwise, or (C) announce any intention to enter into or effect any such transaction described in (A) or (B) above without the prior written consent of the Placing Agent.

THE SUBSCRIPTION AGREEMENT

Date: 13 April 2007

Parties: Yinniu and the Company

The New Shares

Under the Subscription Agreement, Yinniu has conditionally agreed to subscribe for 57,460,000 new Shares, representing approximately 4.20% of the existing issued share capital of the Company and approximately 4.03% of the issued share capital of the Company as enlarged by the Subscription.

Subscription price

The subscription price for the New Shares shall be the Placing Price less the commission and other expenses incurred by Yinniu in connection with the placing of the 57,460,000 Shares and plus any interest earned on the proceeds in respect of the placing of the said 57,460,000 Shares up to the date of completion of the Subscription.

General mandate to issue New Shares

The New Shares will be issued pursuant to the general mandate granted by way of ordinary resolution by the shareholders of the Company to the Directors at the annual general meeting of the Company held on 23 June 2006. The maximum number of Shares which may be issued by the Company pursuant to the general mandate mentioned above is 273,683,294 Shares. As at the date of this announcement, no Shares have been issued by the Company pursuant to the general mandate mentioned above.

Ranking

The New Shares, when issued and fully paid, will rank equally with the existing Shares in issue as at the date of issue of the New Shares.

Conditions of the Subscription

Completion of the Subscription is conditional upon:

- (a) the Listing Committee granting listing of and permission to deal in the New Shares; and
- (b) completion of the Placing.

Completion of the Subscription

Completion of the Subscription will take place on the business day after the date upon which the last of the conditions to be satisfied shall have been so satisfied, provided that completion of the Subscription will not be later than 14 days after the date of the Placing Agreements or such later date as the Company and Yinniu may agree in writing. None of the conditions stated above can be waived. If the Conditions are not fulfilled within 14 days after the date of the Placing Agreements or such other date as may be agreed between the Company and Yinniu, the Subscription will lapse and the obligations and liabilities of Yinniu and the Company under the Subscription shall be null and void.

If completion of the Subscription takes place more than 14 days after the date of the Placing Agreements, the Subscription would not fall within the exemption under Listing Rule 14A.31(3)(d) and would be subject to the relevant requirements of the Listing Rules regarding connected transaction.

Application for Listing

Application will be made to the Listing Committee for the granting of the listing of, and permission to deal in, the New Shares.

Commission and Expenses

Yinniu, Jinniu and the Company shall bear the commission and expenses for the Placing in the proportion of approximately 35.99% , 13.11% and 50.90%, respectively. The net proceeds of the Subscription, based on the Placing Price, amount to approximately HK\$1,363 million.

Effect of the Placing and the Subscription

The shareholdings in the Company as at the date of this announcement and immediately upon completion of the Placing but before the Subscription and completion of the Subscription are summaries as follows (*Note 1*):

	Existing Shares at date of this announcement		Immediately after the Placing but before the Subscription		Immediately after the Placing and the Subscription		Immediately after the Placing and the Subscription and assuming the share options have been exercised in full (<i>Note 5</i>)	
	Number of shares	Percentage	Number of shares	Percentage	Number of shares	Percentage	Number of shares	Percentage
Yinniu (<i>Note 2</i>)	216,730,130	15.84%	118,644,130	8.67%	176,104,130	12.35%	176,104,130	12.29%
Jinniu (<i>Note 2</i>)	152,191,836	11.12%	137,395,836	10.04%	137,395,836	9.64%	137,395,836	9.59%
Mr. Niu Gensheng (<i>Note 3</i>)	45,505,172	3.33%	45,505,172	3.33%	45,505,172	3.19%	45,505,172	3.18%
Public shareholders	953,989,335	69.71%	953,989,335	69.71%	953,989,335	66.90%	953,989,335	66.59%
Places of the Placing Shares (<i>Note 4</i>)	0	0%	112,882,000	8.25%	112,882,000	7.92%	112,882,000	7.88%
Option holders	0	0%	0	0%	0	0%	6,803,000	0.47%
Sub-total of public shareholders	953,989,335	69.71%	1,066,871,335	77.96%	1,066,871,335	74.82%	1,073,674,335	74.94%
Total	1,368,416,473	100.00%	1,368,416,473	100.00%	1,425,876,473	100.00%	1,432,679,473	100.00%

Note 1: The figures above assume that other than the New Shares, no further Shares are issued or repurchased by the Company, and other than the Placing Shares, no Shares are sold or purchased by the Vendors, in each case on or after the date of this announcement and up to the date of the completion of the Placing and the Subscription.

Note 2: 10 founding individuals, namely Niu Gensheng, Deng Jiuqiang, Hou Jiangbin, Sun Yubin, Qiu Lianjun, Yang Wenjun, Pang Kaitai, Lu Jun, Sun Xianhong and Xie Qiuxu, have been acting as a controlling group over the Group’s business since its inception in 1999. Therefore, they as a group are controlling shareholders of the Company. As at 31 December 2006, Niu Gensheng, Deng Jiuqiang, Lu Jun, Sun Yubin, Yang Wenjun, Sun Xianhong and Qiu Lianjun who are shareholders of Jinniu together controlled approximately 83.4% of Jinniu. Niu Gensheng, Xie Qiuxu, Pang Kaitai, Hou Jiangbin and Deng Jiuqiang who are shareholders of Yinniu together controlled approximately 87.2% of Yinniu. Shareholders of Jinniu and Yinniu are middle and senior management staff of the Group.

Note 3: Mr. Niu Gensheng is the executive Director and Chief Executive Officer of the Company.

Note 4: Some placees of the Placing Shares may be existing shareholders of the Company. However, these placees and their ultimate beneficial owners are not, and will not become connected persons of the Company as a result of the Placing and the the Subscription. Any existing holdings of placees are included under “Public shareholders” of the Company.

Note 5: The Company operates a share option scheme. On 26 October 2006, the Group granted 6,803,000 options to employees. Options will be vested as four equal batches with 25% of the options vesting on the first, second, third and forth anniversary from the grant date. In addition, the options will be vested if and when the pre-set performance targets of the Group, the division and the grantee are achieved. As at the date of this announcement, the Company has no outstanding convertibles.

REASONS FOR THE PLACING AND THE SUBSCRIPTION AND USE OF PROCEEDS

The Directors (including the independent non-executive Directors) are of the view that the terms of the Placing (including the placing commission payable to the Placing Agent) and the Subscription, which have been negotiated on an arm’s length basis in accordance with normal commercial terms, are fair and reasonable. The Directors consider that the Placing and the Subscription will broaden the shareholder base and the capital base of the Company.

The net proceeds of the Subscription, based on the Placing Price, amount to approximately HK\$1,363 million (namely, net price of approximately HK\$23.73 per New Share). The Company intends to apply approximately HK\$681.5 million for expansion of its production capacity, approximately HK\$480 million for potential merger and acquisition activities should suitable opportunities arise and the remaining approximately HK\$201.5 million for general working capital purposes. As at the date of this announcement, no specific merger or acquisition target has been identified.

The Company has not raised funds by way of any issue of equity securities in the 12 months immediately preceding the date of the Placing Agreements and Subscription Agreement.

SUSPENSION AND RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended from 9:30 a.m. on 13 April 2007 pending the issue of this announcement.

Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange from 9.30 a.m. on 16 April 2007.

DEFINITIONS

“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 Date”	18 April 2007 or such other date as the Vendors and the Placing Agent may agree in writing
“Completion”	completion of the Placing pursuant to the Placing Agreements
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Jinniu”	Jinniu Milk Industry Limited, a limited liability company organized and existing under the laws of the British Virgin Islands incorporated on 23 September 2002 and a substantial shareholder of the Company
“Jinniu Placing Agreement”	the placing underwriting agreement dated 13 April 2007 between Jinniu and the Placing Agent relating to the placing of the Jinniu Placing Shares
“Jinniu Placing Shares”	14,796,000 existing Shares
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Shares”	57,460,000 new Shares to be subscribed by Yinniu under the Subscription
“Placing”	the placing of the Placing Shares pursuant to the Placing Agreements
“Placing Agent”	BNP Paribas Capital (Asia Pacific) Limited
“Placing Agreements”	the Jinniu Placing Agreement and the Yinniu Placing Agreement
“Placing Price”	HK\$24.00 per Share
“Placing Shares”	the Jinniu Placing Shares and the Yinniu Placing Shares
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the conditional subscription by Yinniu of the New Shares pursuant to the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 13 April 2007 between Yinniu and the Company relating to the subscription of the New Shares
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Vendors”	Yinniu and Jinniu
“Yinniu”	Yinniu Milk Industry Limited, a limited liability company organized and existing under the laws of the British Virgin Islands incorporated on 23 September 2002 and a substantial shareholder of the Company
“Yinniu Placing Agreement”	the placing underwriting agreement dated 13 April 2007 among Yinniu, the Company and the Placing Agent relating to the placing of Yinniu Placing Shares
“Yinniu Placing Shares”	98,086,000 existing Shares

By Order of the Board
Lo Ka Wai Claudia
Company Secretary

Hong Kong, 13 April 2007

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