



CHINA MENGNIU DAIRY COMPANY LIMITED

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

CONNECTED TRANSACTION ACQUISITION OF MENGNIU (WUHAN) FREALTH DAIRY CO., LTD.*

On 3 April 2007, Inner Mongolia Mengniu, a subsidiary of the Company, entered into the Equity Interest Transfer Agreement with Wuhan Frealth to acquire 48% of the equity interest in Mengniu (Wuhan) for a consideration of RMB134,400,000 (equivalent to approximately HK\$135,767,000). After the acquisition, Mengniu (Wuhan) will become a wholly-owned subsidiary of Inner Mongolia Mengniu.

The seller under the Equity Interest Transfer Agreement is a connected person of the Company and the acquisition constitutes a connected transaction of the Company. As each of the appropriate percentage ratios defined under the Listing Rules is less than 2.5%, the transaction is only subject to the reporting and announcement requirements and is exempted from independent shareholders' approval requirement under the Listing Rules.

EQUITY INTEREST TRANSFER AGREEMENT

Seller : Wuhan Frealth
Purchaser : Inner Mongolia Mengniu
Subject : 48% of the equity interest in Mengniu (Wuhan)
Date : 3 April 2007

Consideration

The consideration for the Equity Interest Transfer Agreement is RMB134,400,000 (equivalent to approximately HK\$135,767,000), which shall be payable to the seller in cash from the Company's internal resources in the following manner:-

- (i) 51% of the consideration, namely RMB68,544,000 (equivalent to approximately HK\$69,241,000), shall be paid within 15 days after the receipt of (a) a confirmation letter given by the Management Committee of Dongliugang Livestock Farming Eco-Park, Taiwanese Businessmen Investment Zone, Wujiashan* (吳家山台商投資區東流港牧業生態園管理委員會), a governmental authority, confirming that the preferential treatment currently enjoyed by Mengniu (Wuhan) shall not be affected by the transfer under the Equity Interest Transfer Agreement; and (b) all relevant documents and information as requested by Inner Mongolia Mengniu;
- (ii) 39% of the consideration, namely RMB52,416,000 (equivalent to approximately HK\$52,949,000), shall be paid within 15 days after (a) registration of the lease in respect of the land use right of the first phase production plant of Mengniu (Wuhan) being obtained; (b) approval for the share transfer under the Equity Interest Transfer Agreement of the Department of Commerce, Hubei province, the PRC being obtained; and (c) settlement of the debts and liabilities between Wuhan Frealth and Mengniu (Wuhan); and
- (iii) the remaining 10% of the consideration, namely RMB13,440,000 (equivalent to approximately HK\$13,577,000), shall be paid after (a) the land use right certificate for the second phase of the production plant of Mengniu (Wuhan) being obtained; and (b) four (4) months from the date of the payment (ii) above.

The Company has performed an internal valuation with reference to the historical revenue and historical net asset value of Mengniu (Wuhan) for the financial year ended 31 December 2006 and its business operations. The consideration of the acquisition was arrived at after arm's length negotiations between the parties and on normal commercial terms. In determining the consideration, the parties have applied a revenue multiple of 0.94 and a net asset value multiple of 1.93 after considering various recent comparables engaging in milk and other beverage businesses in the PRC.

There is no long stop date in the Equity Interest Transfer Agreement. The Directors currently expect that completion will take place in the last quarter of 2007.

BACKGROUND OF MENGNIU (WUHAN) AND WUHAN FREALTH

Wuhan Frealth together with its group of companies are conglomerates engaging in various businesses including vehicles trading and repairing and mechanical engineering.

Mengniu (Wuhan), an indirect subsidiary of the Company, which Inner Mongolia Mengniu has a 52% equity interest before the transaction, is a well-known local brand in Wuhan, the PRC, principally engaged in the manufacture and distribution of liquid milk products.

Financial statements of Mengniu (Wuhan) have been accounted for and consolidated in the consolidated financial statements of the Group. The net loss attributable to the 48% stake in Mengniu (Wuhan) for the period from the date of establishment of Mengniu (Wuhan) in January 2006 up to 31 December 2006, amounted to approximately RMB4,286,000 (equivalent to approximately HK\$4,329,000). As at 31 December 2006, the net asset value attributable to the 48% stake in Mengniu (Wuhan) amounted to approximately RMB 69,589,000 (equivalent to approximately HK\$70,296,000).

REASONS FOR THE TRANSACTION

The Group is one of the leading dairy product manufacturers in the PRC and is principally engaged in the manufacture and distribution of quality dairy products.

After the acquisition, Mengniu (Wuhan) will become a wholly-owned subsidiary of Inner Mongolia Mengniu. The Directors consider that the increased stake in Mengniu (Wuhan) will offer the Company an opportunity to enhance the Group's strategic development and competitiveness in central China by further integration of the distribution network and internal resources for better economy of scale, thus expanding the Group's market share in central China.

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

CONNECTED TRANSACTION

As Wuhan Frealth, being a substantial shareholder of the Company's subsidiary, is a connected person of the Company, the acquisition constitutes a connected transaction of the Company. As each of the appropriate percentage ratios defined under the Listing Rules is less than 2.5%, the transaction is only subject to the reporting and announcement requirements and is exempted from independent shareholders' approval requirement under the Listing Rules.

There is no other transaction between the Company and Wuhan Frealth within the 12-month period prior to the transaction disclosed in this announcement which required aggregation under Rule 14A.25 of the Listing Rules.

DEFINITIONS

Unless otherwise defined, terms used in this announcement shall have the meanings set out below:

"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
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	director(s) of the Company
"Equity Interest Transfer Agreement"	the Equity Interest Transfer Agreement dated 3 April 2007 and entered into between Inner Mongolia Mengniu as buyer and Wuhan Frealth as seller for the acquisition of the 48% equity interest in Mengniu (Wuhan)
"Group"	the Company and its subsidiaries
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"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 limited liability company organized under PRC law and an indirect non-wholly-owned subsidiary of the Company
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Mengniu (Wuhan)"	Mengniu (Wuhan) Frealth Dairy Co., Ltd.* (蒙牛(武漢)友芝友乳業有限公司), a limited liability company incorporated in the PRC
"PRC"	The People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"Wuhan Frealth"	Wuhan Frealth Dairy Co., Ltd.* (武漢友芝友保健乳品公司)

By order of the Board
Yang Wenjun
Director

Hong Kong, 4 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.

In this announcement, the exchange rate of RMB0.98993 to HK\$1 is used.

*for identification purposes only