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蒙牛

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)

**SUBSCRIPTION OF FINANCIAL PRODUCTS BY
EMPLOYEES UNDER THE RELEVANT SCHEME**

**PROPOSED PLACING UNDER SPECIFIC MANDATE OF UP TO
HK\$ EQUIVALENT OF RMB4,000,000,000 FIXED RATE
5-YEAR CONVERTIBLE BONDS**

POTENTIAL CONNECTED TRANSACTIONS

Sole Placing Agent



INTRODUCTION

Subscription of Financial Products by Employees under the Relevant Scheme

The Board is pleased to announce that, subject to certain conditions being satisfied, certain Financial Products will be made available for subscription by the Selected Participants under the Relevant Scheme to be adopted by the Company, pursuant to which the Selected Participants are entitled to receive the Incentives. It is expected that the Selected Participants will, through investing in the Contractual Funds (directly or through certain special purpose vehicles), subscribe for the Financial Products from the FP Writers. The Incentives to be received by the Selected Participants from time to time will be based on returns on the Financial Products derived from the performance of the Convertible Bonds and the Company's share price.

Inner Mongolia Mengniu will provide the Guarantee in favour of the FP Writers to guarantee the potential liabilities of the Contractual Funds under the Purchase Agreements.

Convertible Bonds

As part and for the purpose of the establishment of the Relevant Scheme, on January 24, 2021, the Company has entered into the Placing Agreement with the Placing Agent pursuant to which the Placing Agent has agreed to procure, on a best effort basis, places to subscribe for the Convertible Bonds subject to and in accordance with the terms and conditions as set out in the Placing Agreement. The Convertible Bonds will not be offered to the public in Hong Kong. The Convertible Bonds may be converted into the Conversion Shares.

Based on the Initial Conversion Price and assuming full conversion of the Convertible Bonds, the Convertible Bonds will be convertible into up to 138,164,697 Conversion Shares at the Initial Conversion Price, representing approximately 3.50% of the aggregated number of issued Shares as at the date of this announcement and approximately 3.37% of the aggregated number of issued Shares as enlarged by the issue of such Conversion Shares (assuming exercise of all outstanding Share Options in full and that there is no other change to the issued share capital of the Company between the date of this announcement and the full conversion of the Convertible Bonds).

Based on the Floor Conversion Price and assuming full conversion of the Convertible Bonds, the Convertible Bonds will be convertible into up to 146,294,488 Conversion Shares, representing approximately 3.71% of the aggregated number of issued Shares as at the date of this announcement and approximately 3.56% of the aggregated number of issued Shares as enlarged by the issue of such Conversion Shares (assuming exercise of all outstanding Share Options in full and that there is no other change to the issued share capital of the Company between the date of this announcement and the full conversion of the Convertible Bonds).

LISTING RULES IMPLICATIONS

The proposed Relevant Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules and is a discretionary scheme of the Company. The Convertible Bonds are issued to the Placees upon completion of the Placing. Neither the Selected Participants (by themselves or through certain special purpose vehicles), the Contractual Funds, nor the Group will own any Convertible Bonds, Conversion Shares, nor enjoy voting rights or allotment rights over the Conversion Shares.

The Selected Participants are expected to include the Directors and the directors of members of the Group, who are connected persons of the Company. Accordingly, (1) the issuance of the Convertible Bonds (including the terms and conditions of the Convertible Bonds) whose returns (if any) will be linked to the returns to be provided to such connected persons through the Financial Products; and (2) the Guarantee, which guarantees the potential liabilities of the Contractual Funds under the Purchase Agreements and which such connected persons may become beneficiaries, may constitute connected transactions for the purpose of Chapter 14A of the Listing Rules. As the highest of the applicable percentage ratio (as defined under the Listing Rules) (other than the profits ratio) in respect of the Guarantee exceeds 1% but is less than 5% for the Company, the Guarantee is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Further, as the Initial Conversion Price of the Convertible Bonds may be subject to a downward adjustment on or prior to the date of their issuance, the Conversion Shares to be issued upon conversion of the Convertible Bonds are to be issued under the Specific Mandate. The issuance of the Convertible Bonds (including the terms and conditions of the Convertible Bonds) and the Conversion Shares are therefore subject to the approval of the Shareholders.

The Company will apply to the Stock Exchange for the listing of the Convertible Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Listing Rules and in the SFO) only and for the listing of and permission to deal in the Conversion Shares.

GENERAL

The EGM will be convened for the purpose of considering and, if thought fit, approving the Transactions, including the grant of the Specific Mandate and the Placing.

In accordance with the Listing Rules, any potential Selected Participants who hold the Shares and their respective associates will be required to abstain from voting on the resolution(s) in respect of the above.

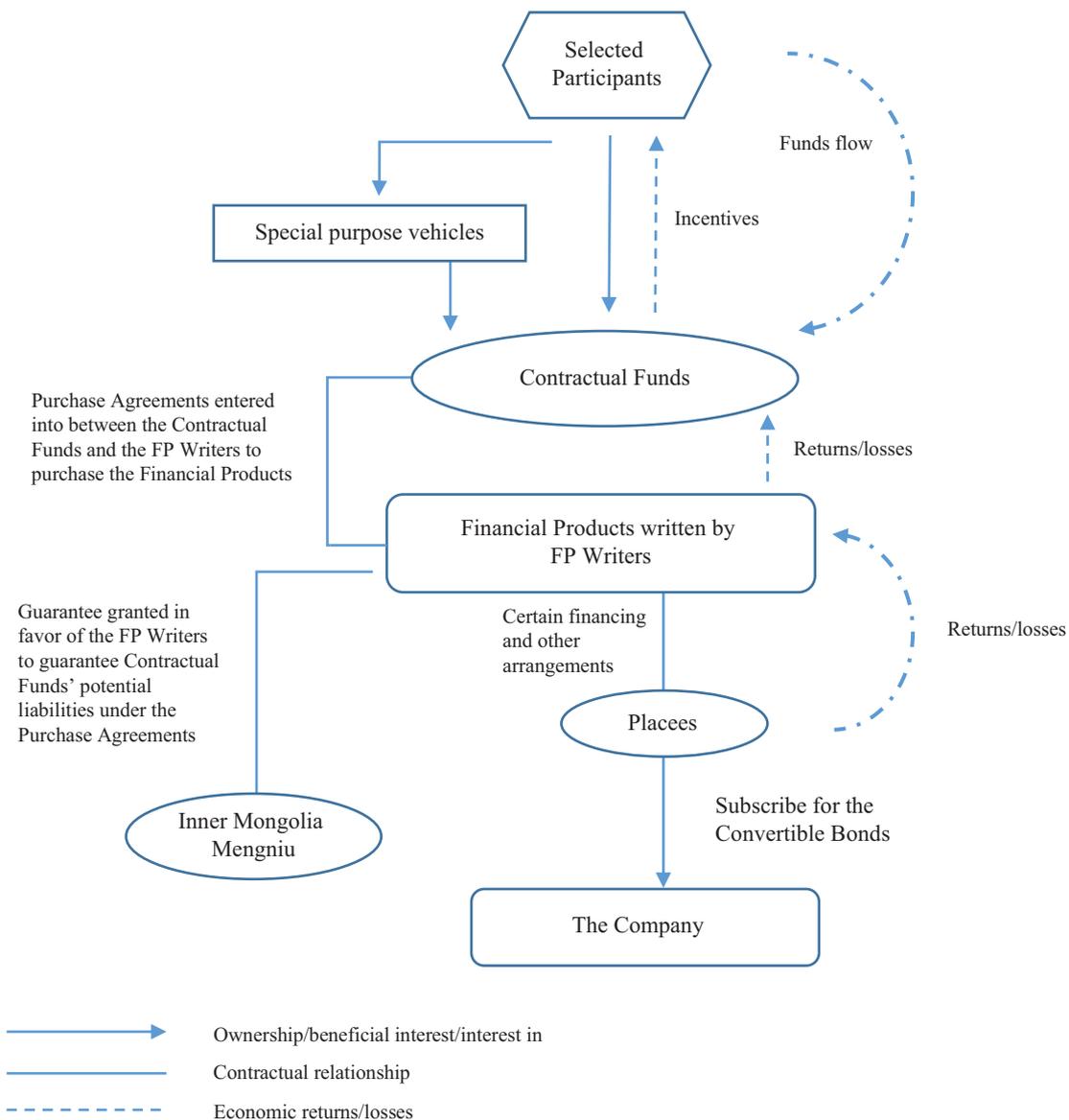
The Circular is expected to be despatched to the Shareholders on or before March 31, 2021 in compliance with the Listing Rules.

Shareholders and potential investors of the Company should note that completion of the Transactions are subject to the fulfilment of the conditions precedent set forth under the relevant Transaction Documents. As the Transactions may or may not proceed, Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

BACKGROUND

The Board is pleased to announce that, subject to certain conditions being satisfied, certain Financial Products will be made available for subscription by the Selected Participants under the Relevant Scheme to be adopted by the Company, pursuant to which the Selected Participants are entitled to receive the Incentives. It is expected that the Selected Participants will, through investing in the Contractual Funds (directly or through certain special purpose vehicles), subscribe for the Financial Products from the FP Writers. The Incentives to be received by the Selected Participants from time to time will be based on returns on the Financial Products derived from the performance of the Convertible Bonds and the Company's share price.

The diagram below illustrates the overall operation of the Financial Products and the Relevant Scheme.



POTENTIAL CONNECTED TRANSACTIONS

The Selected Participants are expected to include the Directors and the directors of members of the Group, who are connected persons of the Company.

The Guarantee

As part of the Transactions, Inner Mongolia Mengniu will provide a guarantee in favour of the FP Writers to guarantee the potential liabilities of the Contractual Funds (on behalf of the Selected Participants) under the Purchase Agreements. Under the Guarantee, Inner Mongolia Mengniu will only be liable if the funds provided by the Selected Participants are insufficient to make payment for potential liabilities incurred by the Contractual Funds.

As the Guarantee may be considered to be financial assistance provided for the benefit of Selected Participants who may be connected persons of the Company, the Guarantee may constitute a connected transaction for the purpose of Chapter 14A of the Listing Rules.

As the highest of the applicable percentage ratio (as defined under the Listing Rules) (other than the profits ratio) exceeds 1% but is less than 5% for the Company, the Guarantee is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Convertible Bonds

Further, the performance of the Convertible Bonds and the Company's share price will determine the returns on the Financial Products, which will determine the Incentives that the Selected Participants may enjoy. As some of the Selected Participants are expected to be connected persons of the Company, the issuance of the Convertible Bonds (including the terms and conditions of the Convertible Bonds) may also constitute a connected transaction and is therefore subject to the reporting, announcement requirements and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

THE RELEVANT SCHEME

The Board intends to adopt the Relevant Scheme (subject to certain conditions being satisfied) pursuant to which the Selected Participants are entitled to receive the Incentives. The Incentives to be received by the Selected Participants from time to time will be based on returns on the Financial Products derived from the performance of the Convertible Bonds and the Company's share price.

The Relevant Scheme does not involve the grant of options over new shares or other new securities that may be issued by the Company (or any of its subsidiaries) and therefore, it does not fall within the ambit of, and is not subject to, the requirements under Chapter 17 of the Listing Rules. The Relevant Scheme is subject to approval from the Shareholders having been obtained at the EGM of the Company to be convened in due course.

A summary of key terms of the Relevant Scheme is set out below. Further details of the terms of the Relevant Scheme (including any limitations on the entitlements to be granted to connected persons of the Company, if any) will be set out in the Circular.

Participation in the Relevant Scheme: It is expected that the Selected Participants will participate in the Relevant Scheme by investing in the Contractual Funds (directly or through certain special purpose vehicles) which will purchase Financial Products from the FP Writers. The Incentives to be received by the Selected Participants from time to time will be based on returns on the Financial Products derived from the performance of the Convertible Bonds and the Company's share price. For details of the Financial Products, please see the section headed "Financial Products" of this announcement.

The Selected Participants will be entitled to their returns on the Financial Products, subject to certain conditions having been satisfied. To realise such returns, the FP Writers will exercise certain rights under its arrangement with the Placees whereby the Convertible Bonds will be converted into Conversion Shares and forthwith sold on the market. Any gains from the Conversion Shares, after deduction of related expenses, will determine the level of returns on the Financial Products that the Selected Participants will enjoy.

Neither the Selected Participants (by themselves or through certain special purpose vehicles), the Contractual Funds, nor the Group will own any Convertible Bonds, Conversion Shares, nor enjoy voting rights or allotment rights over the Conversion Shares.

Effective date of the Relevant Scheme: The date on which the Transactions are approved by the Shareholders at the EGM.

Effective period of the Relevant Scheme: Until the Maturity Date of the Convertible Bonds

Conditions to the Relevant Scheme becoming effective:

- (a) the Transactions having been approved by the Shareholders at the EGM;
- (b) the Selected Participants having invested (directly or through certain special purpose vehicles) into the Contractual Funds;

- (c) the Financial Products having been written by the FP Writers, and the Contractual Funds and the FP Writers having entered into Purchase Agreements which will set forth the terms and conditions of the Financial Products;
- (d) the Contractual Funds having allocated the funds to invest in the Financial Products in accordance with the terms of the Purchase Agreements; and
- (e) the Placing becoming unconditional and the Placees having subscribed and paid for the Convertible Bonds.

Selected Participants: Selected Participants shall be person who meet, among others, the following criteria:

- (a) conform with the values of the Group and have shown passion and commitment to the Group;
- (b) hold a recognized key position in the Group or its associates; and
- (c) have achieved an individual performance appraisal rating of “B” or above and have not been subject to any discipline of level II warning or above in the preceding year.

Conditions to the Selected Participant’s Entitlements:

A Selected Participant will be entitled to the Incentives if during a year and before the date such entitlement is due, none of the following events, among others, have occurred:

- (a) termination of the Selected Participant’s employment with the Group (or its associate) as a result of (i) resignation (ii) non-renewal upon the expiration of the employment contract or (iii) unilateral termination by the Group (or its associates) according to relevant laws and regulations, in which case, such Selected Participant shall cease to have any entitlements to the Incentives from such time when the employment is terminated;
- (b) receiving an individual performance appraisal rating of “C” or “D” or being subject to a discipline of level II warning or above, in which case, such Selected Participant shall not be entitled to the Incentives in the following year;

- (c) holding an interest in any upstream or downstream companies within the industries in which the Group conducts its principal business, or any company which competes directly or indirectly with the Group (provided that this does not restrict a Selected Participant from holding less than 5% of the issued share capital of a listed company purchased through a secondary market trade but subject to such holding not resulting in the Selected Participant becoming the single largest shareholder of such listed company), in which case, such Selected Participant shall cease to have any entitlements to the Incentives from that year and may be required to reimburse the Contractual Funds for all Incentives he or she has received; and
- (d) holding the Incentives on behalf of a non-Selected Participant, in which case, the Selected Participant shall cease to have any entitlements to the Incentives from that year and may be required to reimburse the Contractual Funds for all Incentives he or she has received.

Further details of the arrangements in the event that the Selected Participants cease to have entitlements to the Incentives in the abovesaid circumstances will be set out in the Circular.

THE CONVERTIBLE BONDS

The Placing Agreement

Date

January 24, 2021

Parties

The Issuer: The Company

The Placing Agent: BOCI Asia Limited

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Placing Agent is an Independent Third Party and is not a connected person of the Company.

Placing of the Convertible Bonds

Pursuant to the Placing Agreement, the Company agrees to issue and the Placing Agent agrees to procure, on a best effort basis, places to subscribe and pay for the Convertible Bonds of up to an aggregate principal amount of the HK\$ equivalent of RMB4,000,000,000 at the issue price of 100% of the principal amount of the Convertible Bonds.

Issue Date

Pursuant to the Placing Agreement, the Company agrees to issue the Convertible Bonds, on a date not later than the earlier of (i) 90 business days after the EGM and (ii) 31 July 2021, or on such later date as the Issuer and the Placing Agent may agree (the “**Closing Date**”).

Initial Conversion Price

Pursuant to the Placing Agreement, the Company and the Placing Agent have agreed that the Convertible Bonds will be convertible at the option of the holder thereof into fully paid Shares at the Initial Conversion Price, subject to the following adjustments to the Initial Conversion Price:

If the Average Market Price of the Shares on the Reset Date is less than the Reference Share Price, the Initial Conversion Price will be adjusted on the Reset Date in accordance with the below formula:

$$\text{Adjusted Conversion Price} = \text{Average Market Price} \times 0.8$$

Such Adjusted Conversion Price shall be rounded upwards, if necessary, to the nearest Hong Kong cent, provided that:

- (a) any such adjustment to the Initial Conversion Price shall be limited such that the Adjusted Conversion Price shall in no event be less than the Floor Conversion Price;
- (b) the Initial Conversion Price shall not be reduced below the nominal value of the Shares unless under applicable law then in effect the Convertible Bonds could be exchanged at such reduced Adjusted Conversion Price into legally issued, fully-paid and non-assessable Shares; and
- (c) any such adjustment to the Initial Conversion Price shall only be a downward adjustment.

Any such adjustments shall become effective as of the Reset Date and the Adjusted Conversion Price will be reflected in the final terms and conditions of the Convertible Bonds which will be set out in the Offering Circular and the schedule of the Trust Deed.

Principal Amount

The principal amount of the Bonds will be of an amount not exceeding the HK\$ equivalent of RMB4,000,000,000, translated into Hong Kong dollars at the Relevant Exchange Rate, to be agreed between the Issuer and the Placing Agent prior to the Closing Date. The agreed principal amount of the Bonds will be reflected in the final terms and conditions of the Convertible bonds which will be set out in the Offering Circular and the schedule of the Trust Deed.

Solely for illustration purposes only, based on the exchange rate of HK\$1.00 to RMB0.8336, the principal amount of the Bonds will be of an amount up to HK\$4,798,460,000.

Placees

It is expected that there will be less than six Placees whose ultimate beneficial owners will be Independent Third Parties.

As at the date of this announcement, the Company is working towards the satisfaction of all of the conditions to the Placing, and the Placing Agent is in the process of finalizing the procurement of potential Placees. As such, further announcement(s) and/or updates will be made by the Company in respect of the details of the Placees as and when appropriate.

Conditions precedent to the Placing

Completion of the Placing is conditional upon the satisfaction or fulfilment of the following conditions precedent:

- (a) the Placing Agent being reasonably satisfied with the results of its due diligence investigations (if any) with respect to the Issuer and its subsidiaries and the Offering Circular shall have been prepared in form and content satisfactory to the Placing Agent;
- (b) the execution and delivery (on or before the Closing Date) of the other Contracts, each in a form reasonably satisfactory to the Placing Agent, by the respective parties;
- (c) on or prior to the Closing Date, there having been delivered to the Placing Agent a copy of:
 - (i) the currently effective memorandum and articles of association of the Issuer; and
 - (ii) the resolution(s) of the Board authorising the execution of the Placing Agreement and the other Contracts, the issue of the Convertible Bonds and the entry into and performance of the transactions contemplated;

- (d) on or prior to the Closing Date, there having been delivered to the Placing Agent a copy of the resolution(s) by the Shareholders at the EGM to be convened by the Issuer to approve, *inter alia*, the Transactions, including the adoption of the Relevant Scheme and the related transactions, the Placing and the grant of the Specific Mandate to the Board;
- (e) (i) the approval by the Stock Exchange of the Relevant Scheme and the related transactions as set out in this announcement and as will be set out in the Circular; and (ii) the satisfaction and/or waiver of the conditions precedent to the Relevant Scheme as set out in this announcement and as will be set out in the Circular;
- (f) on the Publication Date and on the Closing Date, there having been delivered to the Placing Agent letters, in form and substance satisfactory to the Placing Agent, dated the date hereof in the case of the first letter and dated the Closing Date in the case of the subsequent letter, and addressed to the Placing Agent from Ernst & Young, auditors to the Issuer;
- (g) at the Closing Date:
 - (i) the representations and warranties of the Issuer in the Placing Agreement being true and accurate at, and as if made on such date;
 - (ii) the Issuer having performed all of its obligations under the Placing Agreement to be performed on or before such date; and
 - (iii) there having been delivered to the Placing Agent a certificate in the form set out in the Placing Agreement, dated as of such date, of a duly authorised officer of the Issuer to such effect;
- (h) after the date of the Placing Agreement and up to and at the Closing Date, there shall not have occurred any change (nor any development or event involving a prospective change), in the financial condition, prospects, earnings, results of operations or business of the Issuer or of the Group, which, in the opinion of the Placing Agent, is material and adverse in the context of the issue and placement of the Convertible Bonds;
- (i) on or prior to the Closing Date there shall have been delivered to the Placing Agent copies of all consents and approvals required in relation to the issue of the Convertible Bonds and the performance of its obligations under the Trust Deed, the Agency Agreement and the Convertible Bonds (including the consents and approvals (if any) required from all lenders);
- (j) there having been delivered to the Placing Agent a certificate of no default in the form as set out in the Placing Agreement dated the Closing Date, of a duly authorised officer of the Issuer;

- (k) on or prior to the Closing Date, there having been delivered to the Placing Agent a copy of the pre-issuance registration certificate in respect of, among other things, the issue of the Convertible Bonds evidencing the registration of the issue of the Convertible Bonds with the NDRC;
- (l) the approval by the Stock Exchange of the listing of, and permission to deal, in the Conversion Shares and of the listing of the Convertible Bonds, in each case subject to any conditions reasonably satisfactory to the Placing Agent (or, in each case, the Placing Agent being reasonably satisfied that such listing will be granted);
- (m) on or before the Closing Date, there having been delivered to the Placing Agent opinions of PRC law, Cayman Islands law and English and Hong Kong law, in form and substance satisfactory to the Placing Agent, dated the Closing Date; and
- (n) such other resolutions, consents, authorities and documents relating to the issue of the Convertible Bonds, as the Placing Agent may reasonably require.

The Placing Agent may, at its discretion and upon such terms as it thinks fit, waive compliance with the whole or any part of the conditions precedent.

As at the date of this announcement, not all of the above conditions have been satisfied and/or (as the case may be) waived. The Company is working towards the satisfaction of all of the above conditions by the Closing Date.

Termination of the Placing Agreement

The Placing Agent may, by notice to the Company given at any time prior to payment of the net subscription monies for the Convertible Bonds to the Company, terminate the Placing Agreement in any of the following circumstances:

- (a) if there shall have come to the notice of the Placing Agent any breach of, or any event rendering untrue or incorrect in any respect, any of the warranties and representations contained in the Placing Agreement or any failure to perform any of the Issuer's undertakings or agreements in the Placing Agreement;
- (b) if any of the conditions precedent in the Placing Agreement has not been satisfied or waived by the Placing Agent on or prior to the Closing Date;
- (c) if in the reasonable opinion of the Placing Agent, there shall have been, since the date of the Placing Agreement, any change, or any development involving a prospective change, in national or international monetary, financial, political or economic conditions (including any disruption to trading generally, or trading in any securities of the Issuer on any stock exchange or in any over-the-counter market) or currency exchange rates or foreign exchange controls such as would in the Placing Agent's reasonable opinion, be likely to prejudice materially the success of the placement and distribution of the Convertible Bonds or dealings in the Convertible Bonds in the secondary market;

- (d) if, in the reasonable opinion of the Placing Agent, there shall have occurred any of the following events: (i) a suspension or a material limitation in trading in securities generally on the New York Stock Exchange, the London Stock Exchange plc, and/or the Stock Exchange; (ii) a suspension (to the extent such suspension is other than in the ordinary course of business of the Issuer) or a material limitation in trading in the Issuer's securities on the Stock Exchange; (iii) a general moratorium on commercial banking activities in the United States, Hong Kong and/or the United Kingdom declared by the relevant authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States, Hong Kong or the United Kingdom; or (iv) a change in taxation affecting the Issuer, the Convertible Bonds and the Shares or the transfer thereof, which would in the Placing Agent's reasonable opinion be likely to prejudice materially the success of the placement and distribution of the Convertible Bonds or dealings in the Convertible Bonds in the secondary market; or
- (e) if, in the reasonable opinion of the Placing Agent, since the date of the Placing Agreement, there shall have occurred any event or series of events (including the occurrence of any local, national or international outbreak or escalation of disaster, hostility, insurrection, armed conflict, act of terrorism, act of God or epidemic) as would in the Placing Agent's reasonable opinion be likely to prejudice materially the success of the placement and distribution of the Convertible Bonds or dealings in the Convertible Bonds in the secondary market.

Completion of the Placing

Completion shall take place on the Closing Date.

PRINCIPAL TERMS OF THE CONVERTIBLE BONDS

Principal terms of the Convertible Bonds are summarized below.

Issuer	The Company
Principal Amount	Up to the HK\$ equivalent of RMB4,000,000,000
Denomination	HK\$10,000 per Convertible Bond and integral multiples of HK\$10,000 in excess thereof
Maturity Date	5 years from the Closing Date
Interest Rate	The Convertible Bonds will bear interest on their outstanding principal amount at a fixed rate of between (and including) 2 per cent. per annum to (and including) 4 per cent. per annum, to be agreed between the Issuer and the Placing Agent prior to the Closing Date.

Conversion Price Initial Conversion Price of HK\$34.73 per Share, subject to the adjustments as summarized in the paragraph headed “Initial Conversion Price” above and the paragraphs headed “Initial Conversion Price Reset” and “Adjustments to the Conversion Price” below.

The Initial Conversion Price of HK\$34.73 per Share represents (i) a discount of 20% to the Reference Share Price and, (ii) a discount of 27.72% to the average Closing Prices of HK\$48.05 for one Share as quoted on the Stock Exchange for the five consecutive Trading Days up to and including January 22, 2021.

The Initial Conversion Price was arrived at after arm’s length negotiations between the parties with reference to, among others, the prevailing market performance of the Shares and the objectives underlying the Financial Products and the Relevant Scheme. The Directors consider that the Conversion Price is fair and reasonable based on the current market conditions and in the interests of the Issuer and the Shareholders as a whole.

Reference Share Price HK\$43.41, the average of the Closing Prices for one Share as quoted on the Stock Exchange for the last 60 consecutive Trading Days up to but excluding January 22, 2021.

Initial Conversion Price Reset On the Reset Date, if the Average Market Price is less than Reference Share Price, the Initial Conversion Price will be reset downwards to 80% of the Average Market Price of the Shares on the Reset Date, subject to the floor of HK\$32.80. For the avoidance of doubt, any such adjustment to the conversion price shall only be a downward adjustment. The adjusted Initial Conversion Price will be reflected in the final terms and conditions of the Convertible Bonds.

Pursuant to the Placing Agreement, parties have agreed that the Initial Conversion Price will be adjusted in accordance with the formula as set out in the Placing Agreement. For more information on the adjustment to the Initial Conversion Price, please refer to the paragraph headed “Initial Conversion Price” above.

**Adjustments to the
Conversion Price**

Standard adjustment provisions protecting against, *inter alia*, consolidation, subdivision, re-designation or reclassification of the Shares, capitalisation of profits or reserves, capital distributions, rights issues of the Shares or options over the Shares, rights issues of other securities, issues at less than the current market price per Share, other issues at less than the current market price per Share, modification of rights of conversion, other offers to the Shareholders and other events, as detailed in the terms and conditions of the Convertible Bonds

Conversion Ratio

287.9355 Shares per HK\$10,000 in the principal amount of the Convertible Bonds, based on the Initial Conversion Price

304.8780 Shares per HK\$10,000 in the principal amount of the Convertible Bonds, based on the Floor Conversion Price

Conversion Shares

In the case of the conversion rights having been exercised in full, a maximum of 138,164,697 (based on the Initial Conversion Price) and 146,294,488 (based on the Floor Conversion Price) new Shares is to be allotted and issued by the Company, representing:

- a) (with respect to the Initial Conversion Price) approximately 3.50% of the aggregated number of the issued Shares as at the date of this announcement;
- b) (with respect to the Initial Conversion Price) approximately 3.37% of the aggregated number of the issued Shares as enlarged by the issue of 138,164,697 Conversion Shares (assuming the exercise of the outstanding Share Options in full and there is no other change in the issued share capital of the Company between the date of this announcement and the full conversion of the Convertible Bonds);
- c) (with respect to the Floor Conversion Price) approximately 3.71% of the aggregated number of the issued Shares as at the date of this announcement; and
- d) (with respect to the Floor Conversion Price) approximately 3.56% of the aggregated number of the issued Shares as enlarged by the issue of 146,294,488 Conversion Shares (assuming the exercise of the outstanding Share Options in full and there is no other change in the issued share capital of the Company between the date of this announcement and the full conversion of the Convertible Bonds);

Assuming 138,164,697 Conversion Shares are issued based on the Initial Conversion Price, the Conversion Shares have a nominal value of HK\$0.10 each share and a total market value of approximately HK\$5,997,729,000, based on the Reference Share Price.

Assuming 146,294,488 Conversion Shares are issued based on the Floor Conversion Price, the Conversion Shares have a nominal value of HK\$0.10 each share and a total market value of approximately HK\$6,350,644,000, based on the Reference Share Price.

The Conversion Shares will be fully paid and will rank *pari passu* in all respects with the Shares in issue as at the date of allotment and issue of the Conversion Shares.

Conversion Period	Subject to and upon compliance with the terms and conditions of the Convertible Bonds, the conversion right attaching to any Convertible Bond may be exercised, at the option of the holder thereof (x) at any time in each period from (and including) the 25th Scheduled Trading Day to (and including) the 5th Scheduled Trading Day immediately prior to the anniversary of the Closing Date in each year, beginning in 2022 (subject to exceptions), or (y) if notice requiring redemption has been given by the holder of such Bond pursuant to the terms set out in terms and conditions of the Convertible Bonds then up to the close of business (at the place aforesaid) on the day prior to the giving of such notice.
Conversion Rights	At any time during the Conversion Period, the holder(s) of the Convertible Bonds have the right to convert the Convertible Bonds into the Conversion Shares at the prevailing Conversion Price.
Transferability	Freely transferable in accordance with the rules and procedures of the clearing systems.
Listing	Application will be made by the Company for the listing of the Convertible Bonds on the Stock Exchange. Application will also be made by the Company for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange to be issued upon the exercise of the conversion rights attached to the Convertible Bonds.

Net Price per Share	<p>The net price of each Conversion Share to the Company based on the estimated net proceeds of approximately HK\$4,797.22 million and 138,164,697 Conversion Shares (based on the Initial Conversion Price) resulting from the conversion of the Convertible Bonds, is estimated to be approximately HK\$34.72.</p> <p>The net price of each Conversion Share to the Company based on the estimated net proceeds of approximately HK\$4,797.22 million and 146,294,488 Conversion Shares (based on the Floor Conversion Price) resulting from the conversion of the Convertible Bonds, is estimated to be approximately HK\$32.79.</p>
Ranking of Conversion Shares	<p>The Shares issued upon exercise of the conversion rights will be fully paid and will in all respects rank <i>pari passu</i> with the fully paid Shares in issue on the relevant registration date except for any right excluded by mandatory provisions of applicable law and except that such Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record or other due date for the establishment of entitlement for which falls prior to the relevant registration date.</p>
Redemption at Maturity	<p>Unless previously redeemed, converted or purchased and cancelled as provided herein, the Company will redeem each Convertible Bond at its principal amount together with accrued and unpaid interest thereon on the Maturity Date (as defined above).</p>
Redemption at the Option of the Bondholders	<p>The Issuer will, at the option of the holder of any Convertible Bonds, redeem all or some only of such holder's Convertible Bonds on the 5th Scheduled Trading Day immediately prior to the anniversary of the Closing Date of each year, beginning in 2022 (each, a "Put Option Date") at their principal amount, together with interest accrued but unpaid up to but excluding such Put Option Date. Such put notice, once delivered by the bond holder, shall be irrevocable (and may not be withdrawn unless the Issuer consents in writing to such withdrawal).</p>

Redemption for a Relevant Event

Following the occurrence of a Relevant Event, the holder of each Bond will have the right at such holder's option, to require the Issuer to redeem all or some only of such holder's Convertible Bonds at their principal amount, together with interest accrued but unpaid up to but excluding the relevant redemption date.

a "Relevant Event" occurs:

- (a) when the Shares cease to be listed or admitted to trading or are suspended for trading for a period equal to or exceeding 30 consecutive Trading Days on the Stock Exchange or, if applicable, the alternative stock exchange;
- (b) when the Current Market Price of a Share is, on any date of determination, less than a figure to be agreed between the Issuer and the Placing Agent prior to the Closing Date and such figure shall be not less than 30% and not more than 60% of the Reference Share Price;
- (c) when the quote for the Reference Bond is, on any date of determination, less than a figure to be agreed between the Issuer and the Placing Agent prior to the Closing Date and such figure shall be not less than 60% and not more than 85% of an amount equal to 100 per cent. of the minimum denomination of principal amount of the Reference Bond;
- (d) when there is a change of control; or
- (e) when there is a rating decline.

Redemption at the Option of the Issuer

None

Negative Pledge

The Bonds will be subject to a customary negative pledge covenant.

Specific Mandate

The Conversion Shares will be allotted and issued pursuant to the Specific Mandate which is subject to Shareholders' approval at the EGM to be convened in due course. The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

FINANCIAL PRODUCTS

The Financial Products will be written by the FP Writers who are expected to be authorised financial institutions in the PRC. The FP Writers will enter into Purchase Agreements with the Contractual Funds in respect of the allocation of funds to invest in the Financial Products. The terms of the Purchase Agreements will provide, among others, that the Contractual Funds may only invest in the Financial Products or such other investment products approved by the relevant parties.

Further details of the Financial Products and the Purchase Agreements will be set forth in the Circular.

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company did not conduct any fund raising activities from the issue of equity securities in the twelve-month period immediately preceding the date of this announcement.

EFFECT ON THE SHAREHOLDING STRUCTURE

Assuming there is no change in the share capital of the Company from the date of this announcement up to the Closing Date, set out below are the shareholding structure of the Company (a) as at the date of this announcement, (b) as a result of full conversion of the Convertible Bonds of principal amount of HK\$4,798,460,000 assuming no adjustment to the Initial Conversion Price of HK\$34.73 and full exercise of all outstanding Share Options, and (c) as a result of full conversion of the Convertible Bonds of principal amount of HK\$4,798,460,000 assuming an Floor Conversion Price of HK\$32.80 and full exercise of all outstanding Share Options:

Name of Shareholders	As at the date of this announcement		Immediately after completion of the Placing and assuming full conversion of the Convertible Bonds at the Initial Conversion Price and exercise of the outstanding Share Options in full		Immediately after completion of the Placing and assuming full conversion of the Convertible Bonds at the Floor Conversion Price and exercise of the outstanding Share Options in full	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
COFCO Dairy Investments Limited	1,233,700,758	31.25	1,233,700,758	30.07	1,233,700,758	30.01
Placees	0	0.00	138,164,697	3.37	146,294,488	3.56
Other Shareholders	<u>2,714,488,313</u>	<u>68.75</u>	<u>2,730,922,128</u>	<u>66.56</u>	<u>2,730,922,128</u>	<u>66.43</u>
Total	<u><u>3,948,189,071</u></u>	<u><u>100</u></u>	<u><u>4,102,787,583</u></u>	<u><u>100</u></u>	<u><u>4,110,917,374</u></u>	<u><u>100</u></u>

REASONS FOR AND BENEFITS OF FINANCIAL PRODUCTS AND THE RELEVANT SCHEME AND THE PLACING, AND USE OF PROCEEDS OF THE PLACING

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. The Directors highly appreciate and recognize the performance of the Group's employees and management team in light of the growth of the Company in the past three years. The Directors believe the Group's development is closely tied to the contributions of its employees. Accordingly, the Board has proposed the Relevant Scheme with a view to share with the Group's employees the fruits of its future development. The Selected Participants will subscribe for the Financial Products whose returns are tied to that of the Convertible Bonds and the performance of the Company's shares, thereby further aligning the interests of the Selected Participants with that of the Company and the Shareholders. The Directors believe that by allowing employees to share in the Company's development, this will motivate employees to further create value for the Company, thereby promoting the Company's high quality development and continuing growth in profitability. The Directors believe that the Relevant Scheme will be conducive to motivating the Group's employees and will help the Group maintain a stable team of talent, facilitating the achievement of the Group's 2025 strategic target of "Creating A New Mengniu In Five Years".

Assuming all the Convertible Bonds are successfully placed by the Placing Agent, the net proceeds from the Placing will be approximately HK\$4,797.22 million and the Company intends to use all the net proceeds from the Placing for general working capital.

The Placing will strengthen the financial position of the Group for its business development and enhance the Group's flexibility in dealing with economic, political and epidemic uncertainties.

Having considered the above, the Board concluded that the Transactions, including the terms and conditions of the Relevant Scheme, the Convertible Bonds and the Placing are fair and reasonable and in the interests of the Company and Shareholders as a whole.

LISTING RULES IMPLICATIONS

The proposed Relevant Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules and is a discretionary scheme of the Company. The Convertible Bonds are issued to the Placees upon completion of the Placing. Neither the Selected Participants (by themselves or through certain special purpose vehicles), the Contractual Funds, nor the Group will own any Convertible Bonds, Conversion Shares, nor enjoy voting rights or allotment rights over the Conversion Shares.

The Selected Participants are expected to include the Directors and the directors of members of the Group, who are connected persons of the Company. Accordingly, (1) the issuance of the Convertible Bonds (including the terms and conditions of the Convertible

Bonds) whose returns (if any) will be linked to the returns to be provided to such connected persons through the Financial Products; and (2) the Guarantee, which guarantees the potential liabilities of the Contractual Funds under the Purchase Agreements and which such connected persons may become beneficiaries, may constitute connected transactions for the purpose of Chapter 14A of the Listing Rules. As the highest of the applicable percentage ratio (as defined under the Listing Rules) (other than the profits ratio) in respect of the Guarantee exceeds 1% but is less than 5% for the Company, the Guarantee is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Further, as the Initial Conversion Price of the Convertible Bonds may be subject to a downward adjustment on or prior to the date of their issuance, the Conversion Shares to be issued upon conversion of the Convertible Bonds are to be issued under the Specific Mandate. The issuance of the Convertible Bonds (including the terms and conditions of the Convertible Bonds) and the Conversion Shares are therefore subject to the approval of the Shareholders.

The Company will apply to the Stock Exchange for the listing of the Convertible Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Listing Rules and in the SFO) only and for the listing of and permission to deal in the Conversion Shares.

GENERAL

The EGM will be convened for the purpose of considering and, if thought fit, approving the Transactions, including the grant of the Specific Mandate and the Placing.

In accordance with the Listing Rules, any potential Selected Participants who hold the Shares and their respective associates will be required to abstain from voting on the resolution(s) in respect of the above.

The Circular is expected to be despatched to the Shareholders on or before March 31, 2021 in compliance with the Listing Rules.

Shareholders and potential investors of the Company should note that completion of the Transactions are subject to the fulfilment of the conditions precedent under the Transaction Documents. As the Transactions (including the Placing) may or may not proceed, Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

DEFINITIONS

“Agency Agreement”	the agency agreement in respect of the Convertible Bonds to be entered into between the Company, the trustee and the principal paying, transfer and exchange agent and registrar on or around the Closing Date
“Average Market Price”	in respect of a Share on a particular date, the average of the Closing Prices for one Share for the 60 consecutive Trading Days ending on the Trading Day immediately preceding such date
“associates”	has the meaning set forth in the Listing Rules
“Board”	the board of directors of the Company
“Circular”	the circular to be despatched to Shareholders which will contain, among other things, (i) further details of the Financial Products, the Relevant Scheme and the Guarantee, (ii) further details of the Placing and the Convertible Bonds, and (iii) a notice convening the EGM
“Closing Price”	of the Shares for any Trading Day shall be the price published in the Daily Quotation Sheet published by the Stock Exchange for such day
“Company” or “Issuer”	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(s)”	has the meaning as ascribed to it under the Listing Rules
“Contractual Funds”	certain contractual funds managed by an asset management company for the purpose of the subscription of the Financial Products under the Relevant Scheme
“Contracts”	the Placing Agreement, the Trust Deed and the Agency Agreement
“Conversion Shares”	the new Shares to be issued upon the exercise of the conversion rights attaching to the Convertible Bonds
“Convertible Bonds” or “Bonds”	the fixed rate convertible bonds proposed to be issued by the Company in an aggregate principal amount of up to the HK\$ equivalent of RMB4,000,000,000 to be placed under the Placing

“Conversion Price”	the Initial Conversion Price, subject to the adjustments as described in this announcement
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting to be convened by the Company to approve the Transactions including the grant of the Specific Mandate and the Placing
“Financial Products”	certain financial products to be written by certain financial institutions for the purpose of the proposed Relevant Scheme
“Floor Conversion Price”	HK\$32.80 per Share
“FP Writers”	writer(s) of the Financial Products, expected to be authorized financial institutions in the PRC
“Group”	the Company and its subsidiaries
“Guarantee”	has the meaning as ascribed to it under the section “Potential Connected Transactions” of this announcement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Incentives”	the returns that the relevant Selected Participants are entitled to receive under the Relevant Scheme determined based on returns on the Financial Products
“Independent Third Party(ies)”	an independent third party, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, who is not connected with the Company and its connected persons
“Initial Conversion Price”	HK\$34.73 per Share, which represents 80% of the Reference Share Price
“Inner Mongolia Mengniu”	Inner Mongolia Mengniu Dairy (Group) Co., Ltd, an indirect non-wholly owned subsidiary of the Company and a joint stock company incorporated in PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)

“NDRC”	the National Development and Reform Commission of the PRC
“Offering Circular”	the offering circular to be prepared by the Company in connection with the issue of the Convertible Bonds and the listing of the Convertible Bonds on the Stock Exchange
“Placee(s)”	the persons or entities to be procured by the Placing Agent or its agent(s) to subscribe for any Convertible Bonds pursuant to the terms and conditions of the Placing Agreement
“Placing”	the placing of the Convertible Bonds by the Company, through the Placing Agent, pursuant to the Placing Agreement
“Placing Agent”	BOCI Asia Limited
“Placing Agreement”	the conditional placing agreement dated January 24, 2021 between the Company and the Placing Agent in relation to the Placing
“PRC” or “China”	the People’s Republic of China, which for the purpose of this announcement, shall not include Hong Kong Special Administrative Region of the PRC, Macau Special Administrative Region of the PRC and Taiwan
“Publication Date”	the publication date of the Offering Circular, which is to be dated no later than three business days prior to the Closing Date or such other date as may be agreed between the Issuer and the Placing Agent
“Purchase Agreements”	the purchase agreement(s) to be entered into between the Contractual Funds and the FP Writers to link the returns of the Financial Products to the performance of the Convertible Bonds
“Reference Bond”	a publicly traded debt security issued by the Issuer, denominated in US dollars, ranking <i>pari passu</i> with the Bonds and which accrues interest at a fixed rate, which will be agreed between the Issuer and the Placing Agent prior to the Closing Date, and any replacement security as determined in accordance with the terms and conditions of the Bonds
“Reference Share Price”	HK\$43.41, the average of the Closing Prices for one Share as quoted on the Stock Exchange for the last 60 consecutive trading days up to but excluding January 22, 2021

“Relevant Exchange Rate”	the exchange rate of Renminbi to Hong Kong dollars as published by the People’s Bank of China, on the date on which the principal amount of the Convertible Bonds is agreed between the Issuer and the Placing Agent, or such other date as the Issuer and the Placing Agent may agree
“Reset Date”	the date falling on the third Trading Day immediately prior to the Closing Date
“RMB”	Renminbi, the lawful currency of the PRC
“Scheduled Trading Day”	a day when the Stock Exchange or, as the case may be an alternative stock exchange, is scheduled to be open for the business of dealing in securities, in any case as determined on the date of the Placing Agreement
“Scheme” or “Relevant Scheme”	has the meaning as ascribed to it under the section “The Relevant Scheme” of this announcement
“Scheme Rules”	the rules relating to the proposed Relevant Scheme to be adopted by the Board, in its present or any amended form
“Selected Participant(s)”	the selected participants of the proposed Relevant Scheme in accordance with the Scheme Rules
“SFO”	Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
“Share(s)”	ordinary share(s) of the Company
“Share Options”	share options granted under the share option scheme approved by the Shareholders on June 3, 2016
“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate”	the specific mandate granted to the Board to allot, issue and deal with the Conversion Shares at the EGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trading Day”	a day when the Stock Exchange is open for the business of dealing in securities, provided that if no Closing Price is reported for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of dealing days
“Transactions”	the transactions contemplated under the Transaction Documents

“Transaction Documents”	the Placing Agreement, the Scheme Rules, the Purchase Agreements, the terms and conditions of the Convertible Bonds, the Guarantee and any other documents entered into and/or to be entered into in connection with the Relevant Scheme and the Convertible Bonds
“Trust Deed”	the trust deed constituting the Convertible Bonds to be entered into between the Company and the trustee on or around the Closing Date
“%”	per cent

In this announcement, for the purpose of illustration only, RMB amounts have been translated into HK\$ at the following rate HK\$1:RMB0.8336. Such translations should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate or at all.

By order of the Board
China Mengniu Dairy Company Limited
中國蒙牛乳業有限公司*
Jeffrey, Minfang Lu
Chief Executive Officer and Executive Director

Hong Kong, January 24, 2021

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. Simon Dominic Stevens 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*