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**China Mengniu Dairy Company Limited**

**中國蒙牛乳業有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2319)**



**Yashili International Holdings Ltd**

**雅士利國際控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1230)**

- (1) CONNECTED TRANSACTION — ACQUISITION OF DUMEX CHINA BY THE YASHILI GROUP;**
- (2) CONTINUING CONNECTED TRANSACTIONS WITH MEMBERS OF THE DANONE GROUP THROUGH THE YASHILI GROUP;**
- (3) TRADEMARK ASSIGNMENT AGREEMENT BETWEEN THE YASHILI GROUP AND A MEMBER OF THE DANONE GROUP;**  
**AND**
- (4) DEED OF UNDERTAKING IN FAVOR OF DANONE SA GIVEN BY THE YASHILI GROUP**

- (1) MAJOR AND CONNECTED TRANSACTION — ACQUISITION OF DUMEX CHINA;**
- (2) CONTINUING CONNECTED TRANSACTIONS WITH MEMBERS OF THE DANONE GROUP;**
- (3) TRADEMARK ASSIGNMENT AGREEMENT WITH A MEMBER OF THE DANONE GROUP;**  
**AND**
- (4) DEED OF UNDERTAKING IN FAVOR OF DANONE SA**

**Financial Adviser to Yashili**



**Independent Financial Adviser to the Yashili Independent Board Committee and the Yashili Independent Shareholders**



## **THE EQUITY TRANSFER AGREEMENT**

The Mengniu Board and the Yashili Board are pleased to announce that on December 1, 2015, the Purchaser and the Seller entered into the Equity Transfer Agreement pursuant to which the Purchaser has conditionally agreed to purchase and the Seller has conditionally agreed to sell the entire equity interest of Dumex China (including the rights to be licensed or assigned to Dumex China pursuant to the Trademark License Agreement, the Patent License Agreement and the Trademark Assignment Agreement) for a consideration of €150 million (equivalent to approximately HK\$1,230 million), subject to adjustments, payable in cash. Upon Closing, Dumex China will become an indirect wholly-owned subsidiary of Yashili.

## **THE TRADEMARK LICENSE AGREEMENT AND THE PATENT LICENSE AGREEMENT**

The Mengniu Board and the Yashili Board are pleased to announce that on December 1, 2015, as one of the conditions precedent to the Proposed Acquisition, (i) the Trademark Licensors and Dumex China entered into a Trademark License Agreement; and (ii) the Patent Licensor and Dumex China entered into a Patent License Agreement.

Pursuant to the Trademark License Agreement, the Trademark Licensors agreed to, among other things, grant Dumex China a non-exclusive, non-revocable (during the term of the Trademark License Agreement), limited, royalty-free, non-transferable, sub-licensable (only to the extent provided in the Trademark License Agreement) license to use the Licensed Marks solely in the PRC, Hong Kong and Macau for the sole purpose of manufacturing, marketing and distributing the Allowed Products. The Trademark License Agreement shall be effective for a term of 20 years commencing from the Closing Date, unless otherwise terminated pursuant to the terms of the Trademark License Agreement.

Pursuant to the Patent License Agreement, the Patent Licensor (as licensor) agreed to, among other things, grant to Dumex China (as licensee) (but not to any parent, subsidiary or affiliate of Dumex China) a non-exclusive, non-transferable and sub-licensable (only to the extent provided in the Patent License Agreement) license for the rights of the Licensed Patents in relation to the making, using, offering for sale and selling of the Licensed Products solely in the PRC, Hong Kong and Macau. The Patent License Agreement shall be effective from the Closing Date until the longest remaining life of the Licensed Patents which will be ending on April 20, 2026, unless otherwise terminated pursuant to the terms of the Patent License Agreement.

Since the consideration for the Proposed Acquisition, being €150 million (equivalent to approximately HK\$1,230 million), has already taken into account, among other things, the expected benefits to the Yashili Group in relation to the transactions contemplated under the Trademark License Agreement and the Patent License Agreement, where the licenses to use the Licensed Marks and the Licensed Patents were granted on a royalty-free basis, therefore, no additional consideration is payable by Dumex China to the Trademark Licensors and the Patent Licensor under the Trademark License Agreement and the Patent License Agreement, respectively.

## **THE TRADEMARK ASSIGNMENT AGREEMENT**

The Mengniu Board and the Yashili Board are pleased to announce that on December 1, 2015, as one of the conditions precedent to the Proposed Acquisition, the Marks Assignor and Dumex China entered into the Trademark Assignment Agreement, pursuant to which the Marks Assignor shall assign all rights, titles and interests and the associated goodwill in the Assigned Marks to Dumex China, subject to the approval of the Trademark Office of the State Administration for Industry and Commerce.

Since the consideration for the Proposed Acquisition, being €150 million (equivalent to approximately HK\$1,230 million), has already taken into account, among other things, the expected benefits to the Yashili Group in relation to the transactions contemplated under the Trademark Assignment Agreement, therefore, no additional consideration is payable by Dumex China to the Marks Assignor under the Trademark Assignment Agreement.

## **THE DEED OF UNDERTAKING**

The Mengniu Board and the Yashili Board are pleased to announce that on December 1, 2015, in consideration of the assignment of, among others, the Combo Marks and the license of the Double Heart Logo to Dumex China, Dumex China executed the Deed of Undertaking in favor of Danone SA and its affiliates (including but not limited to NV Nutricia).

## **LISTING RULES IMPLICATIONS**

### **A. The Equity Transfer Agreement**

#### *1. In relation to Yashili*

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Proposed Acquisition is more than 25% but less than 100% for Yashili, the Proposed Acquisition constitutes a major transaction for Yashili under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this joint announcement, Danone Asia has a 25.0% shareholding interest in Yashili and each of Danone Asia and the Seller is a member of the Danone Group, therefore, the Seller is a connected person of Yashili under the Listing Rules. As the Purchaser is an indirect wholly-owned subsidiary of Yashili and the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Proposed Acquisition is more than 25%, the Proposed Acquisition also constitutes a connected transaction for Yashili under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Yashili Independent Board Committee comprising all the independent non-executive Yashili Directors has been established to consider the terms of the Proposed Acquisition, and to advise and make recommendations to the Yashili Independent Shareholders as to how to vote at the Yashili EGM on the resolution in relation to the Proposed Acquisition. No member of the Yashili Independent Board Committee has any material interest in the Proposed Acquisition.

Somerley has been appointed as the independent financial adviser to advise the Yashili Independent Board Committee and Yashili Independent Shareholders as to whether the terms of the Equity Transfer Agreement are fair and reasonable, and whether the Proposed Acquisition is conducted on normal commercial terms and is in the interests of Yashili and the Yashili Shareholders as a whole.

The Yashili EGM will be convened by Yashili during which an ordinary resolution will be proposed to the Yashili Shareholders to approve the Equity Transfer Agreement, the Proposed Acquisition and all transactions contemplated thereunder. To the best of the Yashili Directors' knowledge, information and belief, having made all reasonable enquiry, other than Danone Asia and its associates, no other Yashili Shareholder will be required to abstain from voting on the resolution approving the Equity Transfer Agreement and the Proposed Acquisition at the Yashili EGM.

A circular containing, among other things, (i) further details of the Proposed Acquisition; (ii) a letter from the Yashili Independent Board Committee containing its opinion and recommendations to the Yashili Independent Shareholders in respect of the Proposed Acquisition; (iii) a letter of advice from Somerley, the independent financial adviser, to advise the Yashili Independent Board Committee and the Yashili Independent Shareholders in respect of the Proposed Acquisition; (iv) a property valuation report prepared by RHL Appraisal Limited in respect of the property interests of Dumex China; (v) other information as required under the Listing Rules; and (vi) a notice to convene the Yashili EGM, is expected to be despatched to the Yashili Shareholders on or before January 8, 2016, which is more than 15 business days after the publication of this joint announcement, as Yashili requires more time to prepare the information to be included in the circular.

## 2. *In relation to Mengniu Dairy*

As at the date of this joint announcement, Yashili is a 51.04% owned subsidiary of Mengniu Dairy. Since Danone Asia has 25.0% shareholding interest in Yashili, Danone Asia is a connected person of Mengniu Dairy at the subsidiary level under the Listing Rules. As each of Danone Asia and the Seller is a member of the Danone Group, therefore, the Seller is also a connected person of Mengniu Dairy at subsidiary level and the Proposed Acquisition constitutes a connected transaction for Mengniu Dairy under Chapter 14A of the Listing Rules. As the highest of the applicable percentage ratios calculated under Chapter 14A of the Listing Rules in respect of the Proposed Acquisition exceeds 1% but is less than 5% for Mengniu Dairy, the Proposed Acquisition is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

### **B. The Trademark License Agreement and the Patent License Agreement**

Each of the Trademark License Agreement and the Patent License Agreement will become effective from the Closing Date. When each of the Trademark License Agreement and the Patent License Agreement takes effect, the licensee under each of the Trademark License Agreement and the Patent License Agreement, namely, Dumex China, will be an indirect wholly-owned subsidiary of Yashili. Each of The Trademark Licensors and the Patent Licensor is a member of the Danone Group. Therefore, each of the Trademark Licensors and the Patent Licensor is a connected person of each of Yashili and Mengniu Dairy under the Listing Rules. As such, each of the Trademark License Agreement and the Patent License Agreement constitutes a continuing connected transaction for each of Yashili and Mengniu Dairy under Chapter 14A of the Listing Rules. As each of the Trademark License Agreement and the Patent License Agreement are entered into on normal commercial terms or better and on a royalty-free basis, such continuing connected transactions fall within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules and therefore are fully exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **C. The Trademark Assignment Agreement**

The assignment of the Assigned Marks pursuant to the Trademark Assignment Agreement will become effective from the Closing Date. When the Trademark Assignment Agreement takes effect, Dumex China, will be an indirect wholly-owned subsidiary of Yashili. The Marks Assignor is a member of the Danone Group. Therefore, the Marks Assignor is a connected person of each of Yashili and Mengniu Dairy under the Listing Rules. As such, the Trademark Assignment Agreement constitutes a connected transaction for each of Yashili and Mengniu Dairy under Chapter 14A of the Listing Rules. As the Trademark Assignment Agreement is entered into on normal commercial terms or better and at nil consideration, such connected transaction falls within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules and therefore is exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### **D. The Deed of Undertaking**

Upon Closing, Dumex China will be an indirect wholly-owned subsidiary of Yashili. Danone SA is the ultimate controlling shareholder of Danone Asia which has a 25.0% shareholding interest in Yashili. Therefore, Danone SA is a connected person of each of Yashili and Mengniu Dairy under the Listing Rules. As such, the Deed of Undertaking constitutes a connected transaction for each of Yashili and Mengniu Dairy under Chapter 14A of the Listing Rules upon Closing. As no consideration is payable by Dumex China under the Deed of Undertaking, such connected transaction falls within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules and therefore is exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

#### **OTHERS**

As disclosed in the joint announcement issued by Mengniu Dairy and Yashili on July 24, 2015, pursuant to the MOU entered into among Mengniu Dairy, Yashili and Danone Singapore, Danone Singapore intends to use the proceeds to be received by it from the Proposed Acquisition to subscribe for new shares in Mengniu Dairy. The Mengniu Board wishes to announce that, having taken into account all relevant factors, Mengniu Dairy and Danone Singapore have mutually agreed that the parties will not proceed with the transactions contemplated under the Proposed Share Subscription, i.e. (1) Mengniu Dairy will not issue any new shares to Danone Singapore pursuant to the MOU; and (2) Danone Singapore will not be subscribing for new shares in Mengniu Dairy pursuant to the MOU. Accordingly, the Proposed Share Subscription envisaged by the MOU will not materialize.

**As completion of the Proposed Acquisition is subject to the fulfilment of certain conditions set forth in the Equity Transfer Agreement, the Proposed Acquisition may or may not proceed. The respective shareholders of Mengniu Dairy and Yashili and/or potential investors should exercise caution when dealing in the securities of Mengniu Dairy and/or Yashili. If in doubt, investors are recommended to consult their professional adviser(s).**

## **I. PROPOSED ACQUISITION OF DUMEX CHINA BY THE PURCHASER**

Reference is made to the joint announcement issued by Mengniu Dairy and Yashili on July 24, 2015 announcing the signing of the MOU among Mengniu Dairy, Yashili and Danone Singapore in relation to the Proposed Acquisition and the Proposed Share Subscription.

The Mengniu Board and the Yashili Board are pleased to announce that on December 1, 2015, the Purchaser and the Seller entered into the Equity Transfer Agreement pursuant to which the Purchaser has conditionally agreed to purchase and the Seller has conditionally agreed to sell the entire issued capital of Dumex China (including the rights to be licensed or assigned to Dumex China pursuant to the Trademark License Agreement, the Patent License Agreement and the Trademark Assignment Agreement) for a consideration of €150 million (equivalent to approximately HK\$1,230 million), subject to adjustments, payable in cash. Upon Closing, Dumex China will become an indirect wholly-owned subsidiary of Yashili.

### **A. The Equity Transfer Agreement**

#### *1. Date and Parties*

Date: December 1, 2015

Parties: the Purchaser (as purchaser)  
the Seller (as seller)

#### *2. Subject of the Proposed Acquisition*

Pursuant to the Equity Transfer Agreement, the Purchaser has conditionally agreed to purchase, and the Seller has conditionally agreed to sell, the entire equity interest of Dumex China. Dumex China is a wholly foreign-owned enterprise organized and existing under the laws of the PRC and a wholly-owned subsidiary of the Seller. It is primarily engaged in the manufacture, sale and import of dairy products and other related nutrition products. Please refer to the section headed “B. INFORMATION ON DUMEX CHINA” in section I of this joint announcement for further details of Dumex China.

### 3. *Consideration and Payment Terms*

The consideration for the Proposed Acquisition is €150 million (equivalent to approximately HK\$1,230 million) (“**Consideration**”). The Seller and the Purchaser agree that the Consideration is derived assuming that Dumex China has no net debt as at Closing.

Accordingly, under the Equity Transfer Agreement, the Seller is expected to contribute additional capital to the registered capital of Dumex China prior to the Closing Date to ensure that Dumex China has no net debt at Closing.

As soon as reasonably practicable following the Closing Date but in any event no later than the date that is forty-five (45) days following the Closing Date, the Purchaser shall procure Dumex China to prepare and deliver to the Seller and the Purchaser, the Closing Date Net Debt Statement and the Closing Date Net Working Capital Statement reviewed by, and reflecting the comments of Dumex China’s auditors, containing calculations of (a) the net debt amount of Dumex China as of the Closing Date (“**Closing Date Net Debt Amount**”), and (b) the net working capital amount of Dumex China as of the Closing Date (“**Closing Date Net Working Capital Amount**”).

If the Closing Date Net Debt Amount is a positive number, the Seller shall pay to the Purchaser an amount equal to the Closing Date Net Debt Amount within ten (10) Business Days following the date on which the Closing Date Net Debt Statement is delivered or is deemed final and binding in accordance with the Equity Transfer Agreement, as the case may be (“**Consideration Adjustment Determination Date**”). If the Closing Date Net Debt Amount is a negative number, the Purchaser shall pay to the Seller an amount equal to the absolute amount of the Closing Date Net Debt Amount within ten (10) Business Days following the Consideration Adjustment Determination Date.

Within ten (10) Business Days following the date on which the Closing Date Net Working Capital Statement is delivered or is deemed final and binding in accordance with the Equity Transfer Agreement, as the case may be, (i) if the Closing Date Net Working Capital Statement shows that the Closing Date Net Working Capital Amount is inferior to RMB(36) million (“**Closing Date Net Working Capital Minimum Amount**”), the Seller shall pay to the Purchaser an amount equal to the absolute value of the difference between the Closing Date Net Working Capital Amount and the Closing Date Net Working Capital Minimum Amount; and (ii) if the Closing Date Net Working Capital Amount is equal to, or greater than, the Closing Date Net Working Capital Minimum Amount, the Seller shall issue a written notice that no further reimbursement in relation to the Closing Date Net Working Capital Amount is due to the Purchaser. The Purchaser and the Seller agree that if the Closing Date Net Debt Amount is a negative number, such amount can be partly or wholly credited against any payment due by the Seller to the Purchaser in relation to the foregoing.



Dumex China was originally acquired by Danone SA on October 31, 2007 as part of the broader, global, €12.3 billion acquisition of Numico N.V., a global baby food and medical nutrition product manufacturer listed on the Amsterdam stock exchange. As such, the underlying fraction of the purchase price paid for Numico N.V. that would have been attributable to Dumex China, if any, would be unduly cumbersome to isolate and quantify more than eight years after Danone SA indirectly took ownership of Dumex China.

Further, following the incident generated by Fonterra in August 2013 (the “**Fonterra Incident**”), when New Zealand’s Ministry for Primary Industries disclosed that testing results suggested the possible presence of Clostridium botulinum in whey protein concentrate supplied by Fonterra, and even though the alert subsequently proved to be unfounded, Dumex China’s business was materially and negatively impacted. In particular, and among other crisis management actions, Dumex China immediately launched an extensive preventive products recall upon issuance of the alert warning. Net sales and net profit dropped from RMB5,733 million and RMB765 million for financial year 2012 to RMB1,319 million and RMB(771) million, respectively, for financial year 2014.

Given the circumstances described above, any reference to the price originally and implicitly paid by Danone SA for Dumex China as part of the Numico N.V. acquisition would be misleading to the Yashili Shareholders in assessing the consideration paid for the entire issued capital of Dumex China as part of the Proposed Acquisition.

Importantly, pursuant to the Equity Transfer Agreement, the Seller is expected to contribute additional capital to the registered capital of Dumex China prior to the Closing Date to the extent required, in the reasonable judgment of the Seller, for Dumex China to achieve a zero net debt position. As a result, it is anticipated that Dumex China’s net worth is expected to materially improve by Closing Date.

#### 4. *Basis of Consideration*

The consideration of the Proposed Acquisition, being €150 million (equivalent to approximately HK\$1,230 million), was determined on the basis of normal commercial terms and after arm’s length negotiation between the Purchaser and the Seller and with reference to the business prospects, financial position and performance of Dumex China, the expected benefits to be brought to the Yashili Group in relation to the transactions contemplated under the Trademark License Agreement, the Patent License Agreement and the Trademark Assignment Agreement and the future synergies to be derived by the Yashili Group after the successful acquisition of Dumex China.

## 5. *Conditions Precedent to the Proposed Acquisition*

### (1) Conditions to obligations of the Seller

The obligations of the Seller to consummate the transactions contemplated by the Equity Transfer Agreement shall be subject to the fulfillment or written waiver, at or prior to the Closing Date, of each of the following conditions:

- (a) (i) the representations and warranties of the Purchaser contained in the Equity Transfer Agreement that are not qualified by a “materiality” qualification shall be true and correct in all material respects as if such representations and warranties had been made on and as of the Closing Date, and the representations and warranties of the Purchaser contained in the Equity Transfer Agreement that are qualified by a “materiality” qualification shall be true and correct in all respects as so qualified as if such representations and warranties had been made on and as of Closing Date (except to the extent such representations and warranties are made as of another date, in which case such representations and warranties shall be true and correct in the manner set forth above, as applicable, as of such other date); and (ii) the covenants and agreements contained in the Equity Transfer Agreement to be complied with by the Purchaser on or before Closing shall have been complied with in all material respects;
- (b) the MOFCOM Approval shall have been issued by the competent branch of MOFCOM;
- (c) all Necessary Approvals shall have been obtained; and
- (d) no governmental authority shall have enacted, issued, promulgated, enforced or entered any law or governmental order that prohibits or makes illegal the Proposed Acquisition contemplated by the Equity Transfer Agreement.

### (2) Conditions to obligations of the Purchaser

The obligations of the Purchaser to consummate the transactions contemplated by the Equity Transfer Agreement shall be subject to the fulfillment or written waiver, at or prior to the Closing Date, of each of the following conditions:

- (a) (i) the representations and warranties of the Seller contained in the Equity Transfer Agreement shall be true and correct in all respects as if such representations and warranties had been made on and as of the Closing Date (except, to the extent such representations and warranties are made as of another date, in which case such representations and warranties shall be true and correct in all respects as of such other date) except, in each case, for such failures to be true and correct as would not have, individually or in the aggregate, a material

adverse effect; and (ii) the covenants and agreements contained in the Equity Transfer Agreement to be complied with by the Seller on or before Closing shall have been complied with in all material respects;

- (b) the MOFCOM Approval shall have been issued by the competent branch of MOFCOM;
- (c) all Necessary Approvals shall have been obtained;
- (d) each of Bruno Chevot, Christophe Bombled and Tang Fei shall have tendered his resignation, as legal representative and/or director of Dumex China, effective immediately as of the Closing Date;
- (e) no governmental authority shall have enacted, issued, promulgated, enforced or entered any law or governmental order that prohibits or makes illegal the Proposed Acquisition contemplated by the Equity Transfer Agreement; and
- (f) the Patent License Agreement, the Trademark Assignment Agreement and the Trademark License Agreement shall have been duly executed by the parties thereto.

#### 6. *Long Stop Date and Termination*

The Equity Transfer Agreement may be terminated at any time prior to Closing:

- (a) by either the Seller or the Purchaser if any of the conditions precedent to Closing has not been fulfilled or otherwise waived in accordance with the Equity Transfer Agreement by the Long Stop Date (being the date that is the first anniversary of the date of the Equity Transfer Agreement); provided, however, that the right to terminate the Equity Transfer Agreement under the relevant provision shall not be available to any party whose failure to fulfill any obligation under the Equity Transfer Agreement shall have been the cause of, or shall have resulted in, the failure of such conditions precedent being fulfilled or otherwise waived on or prior to such date;
- (b) by either the Seller or the Purchaser in the event that any governmental order enjoining or otherwise prohibiting the purchase of the entire equity interests contemplated by the Equity Transfer Agreement shall have become final and non-appealable;
- (c) by the Seller if a breach of any representation, warranty, covenant or agreement on the part of the Purchaser set forth in the Equity Transfer Agreement shall have occurred that would, if occurring or continuing on the Closing Date, cause the conditions precedent set forth in paragraph 5(1)(a) above not to be satisfied, and such breach is not cured, or is incapable of being cured, within thirty (30) days (but

no later than the Long Stop Date) of receipt of written notice by the Seller to the Purchaser of such breach; provided, that the Seller is not then in breach of the Equity Transfer Agreement so as to cause any of the conditions precedents set forth in paragraph 5(2) above not to be satisfied;

- (d) by the Purchaser if a breach of any representation, warranty, covenant or agreement on the part of the Seller set forth in this Agreement shall have occurred that would, if occurring or continuing on the Closing Date, cause the conditions precedent set forth in paragraph 5(2)(a) above not to be satisfied, and such breach is not cured, or is incapable of being cured, within thirty (30) days (but no later than the Long Stop Date) of receipt of written notice by the Purchaser to the Seller of such breach; provided, that the Purchaser is not then in breach of the Equity Transfer Agreement so as to cause any of the conditions precedent set forth in paragraph 5(1) above not to be satisfied; or
- (e) by the mutual written consent of the Seller and the Purchaser.

#### 7. *Closing*

Subject to the terms and conditions of the Equity Transfer Agreement, Closing shall take place at 10:00 a.m. Beijing time on a date as the Purchaser and the Seller have mutually agreed following the satisfaction or waiver in writing of all conditions to the obligations of the Purchaser and the Seller set forth in the section headed “5. Conditions Precedent for the Proposed Acquisition” in section I of this joint announcement, or at such other time or on such other date as the Purchaser and the Seller may mutually agree upon in writing.

Upon Closing, Dumex China will become an indirect wholly-owned subsidiary of Yashili.

#### **B. Information on Dumex China**

Dumex China is a company incorporated in the PRC and an indirect wholly-owned subsidiary of Danone SA dedicated to the IMF business in the PRC. It is primarily engaged in the manufacture, sale and import of dairy products and other related nutrition products. According to the audited financial statements of Dumex China prepared in accordance with the PRC GAAP, the total asset value and the net asset value of Dumex China as at December 31, 2014 were approximately RMB525 million and RMB(1,051) million, respectively. The principal assets of Dumex China include a manufacturing facility located in Shanghai.

According to the audited financial statements of Dumex China prepared in accordance with the PRC GAAP, (i) the total revenue of Dumex China for the year ended December 31, 2014 is RMB1,319 million; and (ii) the net profit or (loss) before and after taxation and extraordinary items of Dumex China for the three years ended December 31, 2012, December 31, 2013 and December 31, 2014 are as follows:

<b>RMB (in millions)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Presented under PRC GAAP</b>	<b>(full year)</b>	<b>(full year)</b>	<b>(full year)</b>
Profit/(Loss) before taxation and extraordinary items <sup>(1)</sup>	999	(505)	(758)
Profit/(Loss) after taxation and extraordinary items	765	(642)	(771)

<sup>(1)</sup> extraordinary items include investment income, subsidies, non-operating income and non-operating expenses

*Source: Dumex China's statutory financial statements*

The information provided in Dumex China's audited PRC GAAP statutory financial statements is not fully representative of the underlying performance of the business. They reflect intra-group costs that will be carved out and no longer borne by Dumex China following completion of the Proposed Acquisition, including, among others, brand royalty payments and technical support fees. They also reflect the cost of a significant portion of the company's personnel that is off the Proposed Acquisition's scope.

The management accounts of Dumex China prepared under International Financial Reporting Standards ("IFRS") provide a better representation of the business to be transferred to the Purchaser. The table below features the earnings before interest, tax, depreciation and amortization ("EBITDA"), as extracted from Dumex China management accounts, that are attributable to the business to be transferred to the Purchaser as part of the Proposed Acquisition, and reflecting its target cost structure and scope.

This EBITDA also excludes significant non-current costs that Dumex China has been incurring over the 2013–2014 reporting period, including, without limitation: stock write-offs, advertising and promotion, sales force, and overhead costs specifically associated with the Fonterra Incident and the NDRC penalty, as well as workforce redundancy and restructuring charges.

<b>RMB (in millions)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Presented under IFRS</b>	<b>(full year)</b>	<b>(full year)</b>	<b>(full year)</b>
EBITDA before non-current items, before intra-group items	1,579	1,070	(232)

*Source: Dumex China's management accounts*

### C. Reasons for and Benefits of the Proposed Acquisition

The Mengniu Directors (including the independent non-executive Mengniu Directors) and the Yashili Directors (other than the independent non-executive Yashili Directors who will be advised by Somerley, the independent financial adviser to the Yashili Independent Board Committee and the Yashili Independent Shareholders, and whose views will be set out in the circular to be despatched to the Yashili Shareholders) are of the respective views that the Proposed Acquisition will benefit Mengniu Dairy and the Mengniu Shareholders, Yashili and the Yashili Shareholders as a whole as the Proposed Acquisition may benefit the Yashili Group in the following areas:

(1) *Obtaining the “Dumex” trademark which is highly recognized in the PRC*

Dumex China recorded a 9-year continuous growth in revenue between 2004 and 2012. In 2013, according to Nielsen, Dumex China ranked second in traditional channels in terms of market share. Although since 2013, the revenue of Dumex China has decreased due to channel transformation and the Fonterra Incident, the “Dumex” brand is still a comparatively highly recognized brand in the PRC and recognized by consumers in the first and second tier cities.

(2) *Obtaining access to Dumex China’s sales network which enable the Yashili Group to penetrate into the markets of first and second tier cities*

The sales of Dumex China mainly concentrate in first and second tier cities, in particular those in Eastern China such as Shanghai, Nanjing and Hefei. At present, as constrained by its brand, the market share of the Yashili Group in these cities is relatively low. Upon Closing, the Yashili Group will be able to obtain access to Dumex China’s sales network with a focus in first and second tier cities. Through Dumex China’s sales network, this could enable the Yashili Group to penetrate into the markets of these first and second tier cities.

(3) *Optimizing the Yashili Group’s production network and reducing production costs by acquiring advanced production facilities*

Dumex China’s advanced production facilities and good quality control system enable Dumex China to produce high quality infant formula products which can satisfy national policy requirements. Upon Closing, the Yashili Group will be able to (a) re-arrange, integrate and optimize its resources with Dumex China’s, such as re-arranging the production lines to improve the overall utilization rates; and (b) centralize procurement of raw materials to enjoy bulk purchase discounts which in turn would enable the Yashili Group to reduce its production costs.

- (4) *Obtaining the Danone Group's continuous support in research and development which in turn would enhance the Yashili Group's research and development capabilities*

Upon Closing, the Danone Group will assist Dumex China to continue to develop its research and development capabilities in the PRC and will share with Dumex China's research and development team in the PRC the latest nutritional standards for nutrition assessment developed by the Danone Group. The continuous support from the Danone Group in research and development aspects could complement the Yashili Group's research in basic nutrition and clinical research.

- (5) *Broadening the product portfolio of the Yashili Group*

Upon Closing, the Yashili Group will be able to secure a continuous supply of four tailored nutrition products from the Danone Group. This could complement the existing product portfolio of the Yashili Group and enable the Yashili Group to have a stronger bargaining power in channel distribution.

In light of the above, the Mengniu Directors (including the independent non-executive Mengniu Directors) and the Yashili Directors (other than the independent non-executive Yashili Directors who will be advised by Somerley, the independent financial adviser to the Yashili Independent Board Committee and the Yashili Independent Shareholders, and whose views will be set out in the circular to be despatched to the Yashili Shareholders) consider that the Proposed Acquisition is conducted on normal commercial terms and the terms of the Equity Transfer Agreement are fair and reasonable and in the respective interests of Mengniu Dairy and the Mengniu Shareholders, Yashili and the Yashili Shareholders as a whole.

#### **D. Information on the Purchaser, Yashili, Mengniu Dairy and the Seller**

The Purchaser is a company incorporated in the PRC and an indirect wholly-owned subsidiary of Yashili. It is principally engaged in the production and sale of dairy products.

Yashili is an investment holding company, which, along with its subsidiaries, is primarily engaged in the manufacturing and selling of dairy and nourishment products. It operates in four segments in China: (i) Yashily pediatric milk formula products segment; (ii) Scient pediatric milk formula products segment; (iii) nutrition products segment and (iv) other segments, including the production and sale of packing materials and sale of surplus raw materials. Yashili is a leading player in China's pediatric milk formula industry, and also has a leading position in the soymilk powder market in China.

Mengniu Dairy is a company incorporated in the Cayman Islands with limited liability. Mengniu Dairy (together with its subsidiaries) is one of the leading dairy product manufacturers in PRC, principally engaged in manufacturing and distribution of quality dairy products including liquid milk, ice-cream, milk formula and other dairy products. Mengniu Dairy is a substantial shareholder of Yashili.

The Seller is an investment holding company incorporated in Singapore and an indirect wholly-owned subsidiary of Danone SA, a global food manufacturing group with leadership positions in fresh dairy products, bottled water, early life nutrition and medical nutrition.

#### **E. Other Information**

In connection with the Proposed Acquisition, on December 1, 2015, several indicative term sheets were also entered into among the Danone Group, Yashili and Dumex China in relation to (1) certain transition arrangements in relation to IT services, office leases, accounting services and procurement etc. in connection with the operations of Dumex China; (2) collaboration in researches relating to nutrition for infants from 0 to 3 years old; and (3) supply of products by the Danone Group to Dumex China. As of the date of this joint announcement, no definitive agreements have been entered into in relation to any of the foregoing matters. The parties shall use their reasonable best efforts to enter into definitive agreements in respect of the aforementioned matters as soon as is reasonably practicable. In the event that the parties are unable to execute, or reach an agreement on the terms of, a definitive agreement prior to the time that all of the conditions precedent under the Equity Transfer Agreement have been satisfied, the aforementioned term sheets will create legally binding obligations on the parties immediately following receipt by the Seller of the Consideration. Upon the execution of the relevant definitive agreements or when the term sheets become legally binding on the parties (as applicable), Mengniu Dairy and/or Yashili will comply with the relevant disclosure and/or shareholders' approval requirements where appropriate. Further announcement(s) will be made by Mengniu Dairy and/or Yashili in accordance with the Listing Rules as and when appropriate.

As disclosed in the joint announcement issued by Mengniu Dairy and Yashili on July 24, 2015, pursuant to the MOU entered into among Mengniu Dairy, Yashili and Danone Singapore, Danone Singapore intends to use the proceeds to be received by it from the Proposed Acquisition to subscribe for new shares in Mengniu Dairy. The Mengniu Board wishes to announce that, having taken into account all relevant factors, Mengniu Dairy and Danone Singapore have mutually agreed that the parties will not proceed with the transactions contemplated under the Proposed Share Subscription, i.e. (1) Mengniu Dairy will not issue any new shares to Danone Singapore pursuant to the MOU; and (2) Danone Singapore will not be subscribing for new shares in Mengniu Dairy pursuant to the MOU. Accordingly, the Proposed Share Subscription envisaged by the MOU will not materialize.



## **F. Listing Rules Implications**

### *1. In relation to Yashili*

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Proposed Acquisition is more than 25% but less than 100% for Yashili, the Proposed Acquisition constitutes a major transaction for Yashili under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this joint announcement, Danone Asia has a 25.0% shareholding interest in Yashili and each of Danone Asia and the Seller is a member of the Danone Group, therefore, the Seller is a connected person of Yashili under the Listing Rules. As the Purchaser is an indirect wholly-owned subsidiary of Yashili and the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Proposed Acquisition is more than 25%, the Proposed Acquisition also constitutes a connected transaction for Yashili under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Yashili EGM will be convened by Yashili during which an ordinary resolution will be proposed to the Yashili Shareholders to approve the Equity Transfer Agreement, the Proposed Acquisition and all transactions contemplated thereunder. To the best of the Yashili Directors' knowledge, information and belief, having made all reasonable enquiry, other than Danone Asia and its associates, no other Yashili Shareholder will be required to abstain from voting on the resolution approving the Equity Transfer Agreement and the Proposed Acquisition at the Yashili EGM.

The Yashili Independent Board Committee comprising all the independent non-executive Yashili Directors has been established to consider the terms of the Proposed Acquisition, and to advise and make recommendations to the Yashili Independent Shareholders as to how to vote at the Yashili EGM on the resolution in relation to the Proposed Acquisition. No member of the Yashili Independent Board Committee has any material interest in the Proposed Acquisition.

Somerley has been appointed as the independent financial adviser to advise the Yashili Independent Board Committee and Yashili Independent Shareholders as to whether the terms of the Equity Transfer Agreement are fair and reasonable, and whether the Proposed Acquisition is conducted on normal commercial terms and is in the interests of Yashili and the Yashili Shareholders as a whole.

A circular containing, among other things, (i) further details of the Proposed Acquisition; (ii) a letter from the Yashili Independent Board Committee containing its opinion and recommendations to the Yashili Independent Shareholders in respect of the Proposed

Acquisition; (iii) a letter of advice from Somerley, the independent financial adviser, to advise the Yashili Independent Board Committee and the Yashili Independent Shareholders in respect of the Proposed Acquisition; (iv) a property valuation report prepared by RHL Appraisal Limited in respect of the property interests of Dumex China; (v) other information as required under the Listing Rules; and (vi) a notice to convene the Yashili EGM, is expected to be despatched to the Yashili Shareholders on or before January 8, 2016, which is more than 15 business days after the publication of this joint announcement, as Yashili requires more time to prepare the information to be included in the circular.

2. *In relation to Mengniu Dairy*

As at the date of this joint announcement, Yashili is a 51.04% owned subsidiary of Mengniu Dairy. Since Danone Asia has 25.0% shareholding interest in Yashili, Danone Asia is a connected person of Mengniu Dairy at the subsidiary level under the Listing Rules. As each of Danone Asia and the Seller is a member of the Danone Group, therefore, the Seller is also a connected person of Mengniu Dairy at subsidiary level and the Proposed Acquisition constitutes a connected transaction for Mengniu Dairy under Chapter 14A of the Listing Rules. As the highest of the applicable percentage ratios calculated under Chapter 14A of the Listing Rules in respect of the Proposed Acquisition exceeds 1% but is less than 5% for Mengniu Dairy, the Proposed Acquisition is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Mr. Christian Neu holds executive positions in the Danone Group and therefore is considered to have material interest in the Equity Transfer Agreement and the transactions contemplated thereunder. As such, Mr. Christian Neu has abstained from voting on the relevant board resolution approving the Equity Transfer Agreement and the transactions contemplated thereunder.

**As completion of the Proposed Acquisition is subject to the fulfilment of certain conditions set forth in the Equity Transfer Agreement, the Proposed Acquisition may or may not proceed. The respective shareholders of Mengniu Dairy and Yashili and/or potential investors should exercise caution when dealing in the securities of Mengniu Dairy and/or Yashili. If in doubt, investors are recommended to consult their professional adviser(s).**

## **II. THE TRADEMARK LICENSE AGREEMENT AND THE PATENT LICENSE AGREEMENT**

The Mengniu Board and the Yashili Board are pleased to announce that on December 1, 2015, as one of the conditions precedent to the Proposed Acquisition, (i) the Trademark Licensors and Dumex China entered into a Trademark License Agreement; and (ii) the Patent Licensor and Dumex China entered into a Patent License Agreement. Details of the Trademark License Agreement and the Patent License Agreement are set out below.

### **A. The Trademark License Agreement**

#### *1. Subject of the transaction*

Pursuant to the Trademark License Agreement, the Trademark Licensors (as licensors) agreed to grant Dumex China (as licensee) a non-exclusive, non-revocable (during the term of the Trademark License Agreement), limited, royalty-free, non-transferable, sub-licensable (only to the extent provided in the Trademark License Agreement) license to use the Licensed Marks solely in the PRC, Hong Kong and Macau for the sole purpose of manufacturing, marketing and distributing the Allowed Products.

In addition, subject to the Trademark Licensors or any of their affiliates owning the trademark rights in New Zealand and Denmark, the Trademark Licensors will also grant licenses to Yashili New Zealand Dairy Co., Limited, Arla Foods amba Arinco and Arla Foods amba EsbjergMejeri Dairy to use the Licensed Marks for the manufacture and export of the Allowed Products to the PRC, Hong Kong and Macau for the benefit of Dumex China and such licenses shall comply with the terms of the Trademark License Agreement.

#### *2. Term*

The Trademark License Agreement shall be effective for a term of 20 years commencing from the Closing Date, unless terminated (a) by the Trademark Licensors in accordance with the Trademark License Agreement; or (b) upon the revocation of the company registration or dissolution of Dumex China in accordance with applicable laws.

Upon expiration of the Trademark License Agreement, the Trademark License Agreement will be automatically renewed for five years in relation to those Licensed Marks that are in use by Dumex China on the Allowed Products upon expiry of the Trademark License Agreement. The Trademark License Agreement can be renewed for a maximum of four times under the same mechanism and in any event the total term of the Trademark License Agreement shall not exceed 40 years.

### 3. *Consideration*

As mentioned in the section headed “4. Basis of Consideration” in section I of this joint announcement, the consideration for the Proposed Acquisition, being €150 million (equivalent to approximately HK\$1,230 million), has already taken into account, among other things, the expected benefits to the Yashili Group in relation to the transactions contemplated under the Trademark License Agreement, where the license to use the Licensed Marks was granted on a royalty-free basis. Therefore, no additional consideration is payable by Dumex China to the Trademark Licensors under the Trademark License Agreement.

## **B. The Patent License Agreement**

### 1. *Subject of the transaction*

Pursuant to the Patent License Agreement, the Patent Licensor (as licensor) agreed to grant to Dumex China (as licensee) (but not to any parent, subsidiary or affiliate of Dumex China) a non-exclusive, non-transferable and sub-licensable (only to the extent provided in the Patent License Agreement) license for the rights of the Licensed Patents in relation to the making, using, offering for sale and selling of the Licensed Products solely in the PRC, Hong Kong and Macau.

Pursuant to the Patent License Agreement, Dumex China may also sub-license the Licensed Patents to Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd (內蒙古歐世蒙牛乳製品有限責任公司) for the sole purpose of using the Licensed Patents for the manufacturing of the Licensed Products for the benefits of Dumex China subject to the terms of the Patent License Agreement.

In addition, subject to the Patent Licensor or any of its affiliates owning patent rights in New Zealand with the same priority application as the Licensed Patents, the Patent Licensor will license the patent rights to Yashili New Zealand Dairy Co., Limited for the sole purpose of allowing Yashili New Zealand Dairy Co., Limited to use the relevant patents to manufacture and export the Licensed Products to the PRC, Hong Kong and Macau for the benefit of Dumex China.

### 2. *Term*

The Patent License Agreement shall be effective from the Closing Date until the longest remaining life of the Licensed Patents which will be ending on April 20, 2026, unless terminated (a) by the Patent Licensor in accordance with the Patent License Agreement; (b) upon the revocation of the company registration or dissolution of Dumex China in accordance with applicable laws; (c) when the Seller or its affiliates no longer owns any equity interests in Yashili but under such event, the Patent License Agreement shall only be terminated after five years from the date of the Patent License Agreement if the disposal of the equity interest in Yashili occurs within the first five years of the date of

the Patent License Agreement, and if the disposal of the equity interest in Yashili occurs after five years from the date of the Patent License Agreement, the Patent License Agreement shall be terminated immediately.

### 3. *Consideration*

As mentioned in the section headed “4. Basis of Consideration” in section I of this joint announcement, the consideration for the Proposed Acquisition, being €150 million (equivalent to approximately HK\$1,230 million), has already taken into account, among other things, the expected benefits to the Yashili Group in relation to the transactions contemplated under the Patent License Agreement, where the license to use the Licensed Patents was granted on a royalty-free basis. Therefore, no additional consideration is payable by Dumex China to the Patent Licensor under the Patent License Agreement.

### **C. Information on the Trademark Licensors, the Patent Licensor and Dumex China**

Each of the Trademark Licensors is an indirect wholly-owned subsidiary of Danone SA, the ultimate controlling shareholder of the Seller. NV Nutricia is a company duly organized and existing under the laws of The Netherlands. International Nutrition Co., Ltd is a company duly organized and existing under the laws of Denmark. Both NV Nutricia and International Nutrition Co., Ltd are investment holding companies and owners of intellectual property rights.

For information on the Patent Licensor, NV Nutricia, please refer to the above paragraph.

For information on Dumex China, please refer to the section headed “B. INFORMATION ON DUMEX CHINA” in section I to this joint announcement.

### **D. Reasons and Benefits of the Trademark License Agreement and the Patent License Agreement**

The Yashili Directors (including the independent non-executive Yashili Directors) are of the view that the entering into of the Trademark License Agreement and the Patent License Agreement will benefit Yashili and the Yashili Shareholders as a whole in the following respects:

- (1) through the transactions contemplated under the Trademark License Agreement, Dumex China is able to continue to use the existing trademarks post-Closing such that its sales and marketing activities post-Closing would be able to be conducted as usual;
- (2) through the transactions contemplated under the Patent License Agreement, Dumex China is able to continue to use the existing patents post-Closing such that the normal supply of Dumex China’s products could be ensured which in turn would facilitate the promotion of Dumex China’s products; and

- (3) through the transactions contemplated under the Trademark License Agreement and the Patent License Agreement, Dumex China's rights to the Licensed Marks and Licensed Patents are specified which in turn would enhance the protection of Dumex China's rights to such Licensed Marks and Licensed Patents.

The Yashili Directors (including the independent non-executive Yashili Directors) are of the view that it is normal business practice for agreements in relation to trademarks and patents to be of relatively long duration. Given that it is of paramount importance for Dumex China to be able to secure a long term right to use the Licensed Marks and the Licensed Patents to ensure stability to the continued business operations of Dumex China, it is necessary that the term of each of the Trademark License Agreement and the Patent License Agreement exceeds three years.

The Yashili Directors (including the independent non-executive Yashili Directors) are of the view that the Trademark License Agreement, the Patent License Agreement and the terms of them which are in excess of three years are on normal commercial terms, and that their terms are fair and reasonable and in the interest of Yashili and the Yashili Shareholders as a whole.

Based on the above, the Mengniu Directors (including the independent non-executive Mengniu Directors) are also of the view that the Trademark License Agreement, the Patent License Agreement and the terms of them which are in excess of three years are on normal commercial terms, and that their terms are fair and reasonable and in the interest of Mengniu Dairy and the Mengniu Shareholders as a whole.

**E. View from the Independent Financial Adviser in Respect of the Duration of the Trademark License Agreement and the Patent License Agreement**

As the duration of each of the Trademark License Agreement and the Patent License Agreement exceeds three years, pursuant to Rule 14A.52 of the Listing Rules, Yashili has engaged Somerley as the independent financial adviser to explain why each of the Trademark License Agreement and the Patent License Agreement requires a longer period and to confirm that it is normal business practice for agreements of this type to be of such duration.

In assessing the reasons why the duration of each of the Trademark License Agreement and the Patent License Agreement requires a period longer than three years, Somerley has taken into consideration the information set out in this announcement, and the following principal factors based on the information provided by, and discussion with the management of Yashili:

- (i) Dumex China has been manufacturing and selling products using the Licensed Marks and Licensed Patents, and continuing to manufacture and sell the products of Dumex China using the Licensed Marks and Licensed Patents after completion of the Equity Transfer Agreement will be of strategic importance for the Yashili Group. Yashili's management is

of the view that it is of paramount importance for Dumex China to be able to secure a long term right to use the Licensed Marks and Licensed Patents to ensure stability to the continued business operations of Dumex China.

- (ii) Entering into of the Trademark License Agreement and the Patent License Agreement will allow Dumex China (after acquisition by the Yashili Group) to (i) continue to use the Licensed Marks such that its sales and marketing activities would be able to be conducted as usual; (ii) continue to use the Licensed Patents such that the normal supply of Dumex China's products could be ensured which in turn would facilitate the promotion of Dumex China's products; and (iii) specify its rights to the Licensed Marks and Licensed Patents which in turn would enhance the protection of Dumex China's rights to such Licensed Marks and Licensed Patents.

In considering whether the duration of each of the Trademark License Agreement and the Patent License Agreement is in line with normal business practice for agreements of this type, Somerley has reviewed a number of comparable agreements (the “**Comparable Agreements**”) with nature similar to that of the Trademark License Agreement and/or the Patent License Agreement, where (1) one of the parties (or its direct or indirect holding company) to such agreements is a company listed in Hong Kong which is principally engaged in food and beverage related businesses and has a closing market capitalisation of HK\$2 billion or above as at the date of this announcement; and (2) such Comparable Agreements are referred to in the latest annual report of the respective listed company involved. Based on information published on the website of the Stock Exchange (i.e. the latest annual report, and/or other documents published by the respective listed company on the website of the Stock Exchange where details of the duration of the Comparable Agreements are not shown in the latest annual report), Somerley notes that the Comparable Agreements have duration ranging from approximately 2.5 years to a perpetual duration. The durations of both the Trademark License Agreement (being for a period of 20 years and extendable for a maximum of 20 years) and the Patent License Agreement (being a period until the longest remaining life of the Patents, which will be ending on April 20, 2026) are within the range of the duration of the Comparable Agreements.

Based on the above considerations, Somerley is of the view that a period longer than three years is required for each of the Trademark License Agreement and the Patent License Agreement and that the duration of each of the Trademark License Agreement and the Patent License Agreement of longer than three years is in line with the normal business practice for agreements of this type.

## **F. Listing Rules Implications**

As mentioned above, each of the Trademark License Agreement and the Patent License Agreement will become effective from the Closing Date. When each of the Trademark License Agreement and the Patent License Agreement takes effect, the licensee under each of the Trademark License Agreement and the Patent License Agreement, namely, Dumex China, will

be an indirect wholly-owned subsidiary of Yashili. Each of The Trademark Licensors and the Patent Licensor is a member of the Danone Group. Therefore, each of the Trademark Licensors and the Patent Licensor is a connected person of each of Yashili and Mengniu Dairy under the Listing Rules. As such, each of the Trademark License Agreement and the Patent License Agreement constitutes a continuing connected transaction for each of Yashili and Mengniu Dairy under Chapter 14A of the Listing Rules. As each of the Trademark License Agreement and the Patent License Agreement are entered into on normal commercial terms or better and on a royalty-free basis, such continuing connected transactions fall within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules and therefore are fully exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Jeffrey, Minfang Lu and Mr. Qin Peng are Yashili Directors nominated by the Danone Group and are considered to have material interest in the Trademark License Agreement, the Patent License Agreement and the transactions contemplated thereunder and have abstained from voting on the relevant board resolutions approving the Trademark License Agreement, the Patent License Agreement and the transactions contemplated thereunder.

Mr. Christian Neu holds executive positions in the Danone Group and therefore is considered to have material interest in the Trademark License Agreement, the Patent License Agreement and the transactions contemplated thereunder. As such, Mr. Christian Neu has abstained from voting on the relevant board resolutions approving the Trademark License Agreement, the Patent License Agreement and the transactions contemplated thereunder.

### **III. THE TRADEMARK ASSIGNMENT AGREEMENT**

The Mengniu Board and the Yashili Board are pleased to announce that on December 1, 2015, as one of the conditions precedent to the Proposed Acquisition, the Marks Assignor and Dumex China entered into the Trademark Assignment Agreement, pursuant to which the Marks Assignor shall assign all rights, titles and interests and the associated goodwill in the Assigned Marks to Dumex China, subject to the approval of the Trademark Office of the State Administration for Industry and Commerce. Details of the Trademark Assignment Agreement are set out below.

#### **A. The Trademark Assignment Agreement**

##### *1. Subject of the transaction*

Pursuant to the Trademark Assignment Agreement, with effect from the Closing Date, the Marks Assignor shall assign all rights, titles and interests and the associated goodwill in the Assigned Marks to Dumex China, subject to the approval of the Trademark Office of the State Administration for Industry and Commerce.



## 2. *Consideration*

As mentioned in the section headed “4. Basis of Consideration” in section I of this joint announcement, the consideration for the Proposed Acquisition, being €150 million (equivalent to approximately HK\$1,230 million), has already taken into account, among other things, the expected benefits to the Yashili Group in relation to the transactions contemplated under the Trademark Assignment Agreement, therefore, no additional consideration is payable by Dumex China to the Marks Assignor under the Trademark Assignment Agreement.

### **B. Information on the Marks Assignor and Dumex China**

For information on the Marks Assignor, International Nutrition Co., Ltd, please refer to the section headed “C. INFORMATION ON THE TRADEMARK LICENSORS, THE PATENT LICENSOR AND DUMEX CHINA” in section II of this joint announcement.

For information on Dumex China, please refer to the section headed “B. INFORMATION ON DUMEX CHINA” in section I to this joint announcement.

### **C. Reasons and Benefits of the Trademark Assignment Agreement**

The Yashili Directors (including the independent non-executive Yashili Directors) are of the view that the entering into of the Trademark Assignment Agreement will benefit Yashili and the Yashili Shareholders as a whole in the following respects:

- (1) through the transactions contemplated under the Trademark Assignment Agreement, Dumex China will be able to obtain ownership of the Assigned Marks, namely the “DUMEX” trademark, which is highly recognized in the PRC; and
- (2) through the ownership of the Assigned Marks, this could enhance the protection of Dumex China’s rights to the Assigned Marks which in turn would ensure a smooth development and launch of Dumex China’s sales and marketing activities.

The Yashili Directors (including the independent non-executive Yashili Directors) are of the view that the Trademark Assignment Agreement and that its terms are fair and reasonable and in the interest of Yashili and the Yashili Shareholders as a whole.

Based on the above, the Mengniu Directors (including the independent non-executive Mengniu Directors) are also of the view that the Trademark Assignment Agreement and that its terms are fair and reasonable and in the interest of Mengniu Dairy and the Mengniu Shareholders as a whole.

## **D. Listing Rules Implications**

As mentioned above, the assignment of the Assigned Marks pursuant to the Trademark Assignment Agreement will become effective from the Closing Date. When the Trademark Assignment Agreement takes effect, Dumex China, will be an indirect wholly-owned subsidiary of Yashili. The Marks Assignor is a member of the Danone Group. Therefore, the Marks Assignor is a connected person of each of Yashili and Mengniu Dairy under the Listing Rules. As such, the Trademark Assignment Agreement constitutes a connected transaction for each of Yashili and Mengniu Dairy under Chapter 14A of the Listing Rules. As the Trademark Assignment Agreement is entered into on normal commercial terms or better and at nil consideration, such connected transaction falls within the de minimis threshold as stipulated under Rule 14A.76(1) of the Listing Rules and therefore is exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Jeffrey, Minfang Lu and Mr. Qin Peng are Yashili Directors nominated by the Danone Group and are considered to have material interest in the Trademark Assignment Agreement and the transactions contemplated thereunder and have abstained from voting on the relevant board resolution approving the Trademark Assignment Agreement and the transactions contemplated thereunder.

Mr. Christian Neu holds executive positions in the Danone Group and therefore is considered to have material interest in the Trademark Assignment Agreement and the transactions contemplated thereunder. As such, Mr. Christian Neu has abstained from voting on the relevant board resolution approving the Trademark Assignment Agreement and the transactions contemplated thereunder.

## **IV. THE DEED OF UNDERTAKING**

The Mengniu Board and the Yashili Board are pleased to announce that on December 1, 2015, in consideration of the assignment of, among others, the Combo Marks and the license of the Double Heart Logo to Dumex China, Dumex China executed the Deed of Undertaking in favor of Danone SA and its affiliates (including but not limited to NV Nutricia). Details of the Deed of Undertaking are set out below.

### **A. THE DEED OF UNDERTAKING**

#### *1. Subject of the Deed of Undertaking*

Pursuant to the Deed of Undertaking, Dumex China undertakes to Danone SA that it shall, among other things,

- (1) always use the Combo Marks and the Double Heart Logo strictly in compliance with the terms and Danone SA's brand guidelines;

- (2) use marks containing the Double Heart Logo only on the Allowed Products;
- (3) ensure a high quality standard of products commensurate with the overall brand image and reputation of Dumex China and in any event not lower than the latest national quality standards applicable to products and agree to implement the crisis management guidelines of Danone SA in case of crisis which may have material adverse impact on the image and reputation of the Dumex brand;
- (4) provide all necessary assistance to Danone SA to procure the registration of Danone SA's application for trademark registration for the Double Heart Logo by itself or any composite mark containing the Double Heart Logo in the PRC, Hong Kong and Macau, in case such application is challenged by the relevant trademark authority for reason of similarity with the Combo Marks;
- (5) not to alter, modify or otherwise make any change to the Double Heart Logo in the Combo Marks;
- (6) at any time in the future, whether by itself, its directors, employees, servants, agents, affiliates under its control, or any of them, not to register, apply to register or maintain any composite trade mark or service mark containing the Double Heart Logo as an element;
- (7) not to license, assign or in any way transfer the ownership of the Combo Marks to any third party without a prior written consent by Danone SA;
- (8) not to assert or otherwise participate or assist any third party in a legal action in the PRC, Hong Kong and Macau based on infringement of the Double Heart Logo or the Combo Marks by Danone SA and/or any of its affiliates and/or distributors and/or licensees of the Double Heart Logo or the Combo Marks;
- (9) not to oppose, challenge or cancel any trademark application or registration of Danone SA for composite marks that incorporate the Double Heart Logo as an element or Double Heart Logo as stand alone marks in any way by any means or assisting any third party to do so; and
- (10) not to use the Double Heart Logo as standalone trademarks or together with any other signs or trademarks except as provided under the Trademark License Agreement.

In the event of a breach by Dumex China of any of the above undertakings, Dumex China will indemnify Danone SA and its officers, directors, shareholders, employees, agents, and affiliates from, and hold them harmless from and against any and all claims, actions, suits, proceedings, losses, liabilities, costs, damages, and reasonable attorneys' fees in relation to any matter or matters arising from any breach by any of the term of the Deed of Undertaking, or failure in enforcing the terms thereof.

In the event of an application to register composite marks containing the Double Heart Logo or Double Heart Logo as standalone marks by Danone SA has been rejected by the PRC Trademark Office due to similarity with the Combo Marks and, for clarity, not for reason of similarity with “DUMEX” word mark and/or the Chinese word mark “多美滋”, Dumex China will reimburse Danone SA for all government fees incurred to file the initial application and pursue further appeals before the PRC Trademark Review and Adjudication Board and competent courts.

## **B. Information on Dumex China and Danone SA**

For information on Dumex China, please refer to the section headed “B. INFORMATION ON DUMEX CHINA” in section I to this joint announcement.

Danone SA is a company duly incorporated in France. It is engaged globally in the food manufacturing, with leadership positions in fresh dairy products, bottled water, early life nutrition and medical nutrition.

## **C. Reasons and Benefits of the Deed of Undertaking**

Since the execution of the Deed of Undertaking by Dumex China is the prerequisite for the Trademark Licensors, the Patent Licensor and the Marks Assignor to enter into the Trademark License Agreement, the Patent License Agreement and the Trademark Assignment Agreement with Dumex China, respectively, the Yashili Directors (including the independent non-executive Yashili Directors) are of the view that the entering into of the Deed of Undertaking will benefit Yashili and the Yashili Shareholders as a whole.

The Yashili Directors (including the independent non-executive Yashili Directors) are of the view that the Deed of Undertaking and its terms are on normal commercial terms, and that its terms are fair and reasonable and in the interest of Yashili and the Yashili Shareholders as a whole.

Based on the above, the Mengniu Directors (including the independent non-executive Mengniu Directors) are also of the view that the Deed of Undertaking and that its terms are fair and reasonable and in the interest of Mengniu Dairy and the Mengniu Shareholders as a whole.

## **D. Listing Rules Implications**

Upon Closing, Dumex China will be an indirect wholly-owned subsidiary of Yashili. Danone SA is the ultimate controlling shareholder of Danone Asia which has a 25.0% shareholding interest in Yashili. Therefore, Danone SA is a connected person of each of Yashili and Mengniu Dairy under the Listing Rules. As such, the Deed of Undertaking constitutes a connected transaction for each of Yashili and Mengniu Dairy under Chapter 14A of the Listing Rules upon Closing. As no consideration is payable by Dumex China under the Deed of Undertaking, such connected transaction falls within the de minimis threshold as stipulated

under Rule 14A.76(1) of the Listing Rules and therefore is exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Mr. Jeffrey, Minfang Lu and Mr. Qin Peng are Yashili Directors nominated by the Danone Group and are considered to have material interest in the Deed of Undertaking and the transactions contemplated thereunder and have abstained from voting on the relevant board resolution approving the Deed of Undertaking and the transactions contemplated thereunder.

Mr. Christian Neu holds executive positions in the Danone Group and therefore is considered to have material interest in the Deed of Undertaking and the transactions contemplated thereunder. As such, Mr. Christian Neu has abstained from voting on the relevant board resolution approving the Deed of Undertaking and the transactions contemplated thereunder.

## V. DEFINITIONS

In this joint announcement, unless the context otherwise requires, the following expressions have the following meanings:

- “Allowed Products” mean milk based infant formula, infant follow-on formula and growing up milk products for infants from 0 to 3 years, milk powder products for pregnant women and lactating women, and baby weaning food products which include Tailored Nutrition Products but exclude Medical Nutrition Products, that are manufactured by or for Dumex China, and marketed exclusively under the “DUMEX” brand within the PRC, Hong Kong and Macau. For the avoidance of doubt, all products currently manufactured and marketed by Dumex China are Allowed Products
- “Assigned Marks” mean the trademarks registered or pending application in the name of the Marks Assignor and are used exclusively under the “DUMEX” brand in the PRC, Hong Kong and Macau which includes the Combo Marks and the Shield Combo Marks, and are more specifically set out in the Trademark Assignment Agreement. In case the Marks Assignor owns or acquire other trademarks registered in the PRC, Hong Kong and Macau that are identical or similar to the Assigned Marks, the Trademark Assignment Agreement shall be deemed to have been updated to include such other trademarks
- “associate(s)” has the meaning ascribed to it by the Listing Rules
- “Business Day” any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in Paris, Singapore, Beijing or Hong Kong

“Closing”	the completion of the Proposed Acquisition
“Closing Date”	the day on which Closing takes place
“Closing Date Net Debt Statement”	the statement prepared by Dumex China and reviewed by, and reflecting the comments of Dumex China’s auditors, containing calculations of the Closing Date Net Debt Amount
“Closing Date Net Working Capital Statement”	the statement prepared by Dumex China and reviewed by, and reflecting the comments of Dumex China’s auditors, containing calculations of the Closing Date Net Working Capital Amount
“Combo Marks”	means the list of composite marks which are made of two main elements: the Double Heart Logo and the “DUMEX” word mark and/or the Chinese word mark “多美滋” which are more specifically set out in the Trademark Assignment Agreement
“connected person(s)”	has the meaning ascribed to it by the Listing Rules
“Consideration”	the consideration for the Proposed Acquisition
“Danone Asia”	Danone Asia Baby Nutrition Pte. Ltd., a company established and existing under the laws of Singapore and an indirect wholly-owned subsidiary of Danone SA. Danone Asia is a substantial shareholder of Yashili
“Danone Group”	Danone SA, Danone Asia and other companies directly or indirectly controlled by Danone SA
“Danone SA”	Danone SA, a company incorporated under the laws of France, the ultimate controlling shareholder of Danone Asia
“Danone Singapore”	Danone Asia Pte Ltd, a company established and existing under the laws of Singapore
“Deed of Undertaking”	the deed of undertaking dated December 1, 2015 executed by Dumex China in favor of Danone SA
“Double Heart Logo”	the double heart device logo, being a main element of the Combo Marks

“Dumex China”	Dumex Baby Food Co., Ltd.** (多美滋嬰幼兒食品有限公司), a wholly foreign-owned enterprise organized and existing under the laws of the PRC. As at the date of this joint announcement, it is a wholly-owned subsidiary of the Seller dedicated to the IMF business in the PRC
“Equity Transfer Agreement”	the equity transfer agreement dated December 1, 2015 entered into between the Purchaser and the Seller in relation to the Proposed Acquisition
“Euro” or “€”	the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“IMF”	infant milk formula
“Licensed Marks”	means the trademarks registered or pending application in the name of the Trademark Licensors and are used on the existing Dumex products set forth in the Trademark License Agreement as of the effective date of the Trademark License Agreement in the PRC, Hong Kong and Macau
“Licensed Patents”	means patents of the Patent Licensor provided in the Patent License Agreement that are licensed to Dumex China under and pursuant to the Patent License Agreement
“Licensed Products”	mean milk based infant formula, infant follow-on formula and growing up milk products for infants from 0 to 3 years, milk powder products for pregnant women and lactating women, and baby weaning food products, that are manufactured by or for the Licensee, and marketed exclusively under the “DUMEX” brand within the PRC, Hong Kong and Macau, but exclude Tailored Nutrition Products and Medical Nutrition Products. For the avoidance of doubt, all products currently manufactured and marketed by Dumex China are Licensed Products
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

“Long Stop Date”	means the first anniversary of the date of the Equity Transfer Agreement
“Macau”	Macau Special Administrative Region of the People’s Republic of China
“Marks Assignor”	International Nutrition Co. Ltd., an indirect wholly-owned subsidiary of Danone SA
“Medical Nutrition Products”	mean (a) products for people with specific nutritional needs to support and maintain physical or mental health and/or to prevent illness, (b) products for sick and/or malnourished infants, and (c) amino-acid-based products
“Mengniu Board”	the board of directors of Mengniu Dairy
“Mengniu Dairy”	China Mengniu Dairy Company Limited, a company incorporated in the Cayman Islands with limited liability with its shares listed on the Main Board of the Stock Exchange (stock code: 2319)
“Mengniu Directors”	the directors of Mengniu Dairy
“Mengniu Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of Mengniu Dairy
“Mengniu Shareholders”	person(s) whose name(s) appear on the register of members of Mengniu Dairy as registered holder(s) of the Mengniu Share(s)
“MOFCOM”	the PRC Ministry of Commerce or its authorized local counterpart(s)
“MOFCOM Approval”	the approval officially granted by the competent branch of MOFCOM in respect of the transfer of the entire equity interests in Dumex China
“MOU”	the memorandum of understanding entered into among Mengniu Dairy, Yashili and Danone Singapore in relation to the Proposed Acquisition and the Proposed Share Subscription
“Necessary Approvals”	collectively, the MOFCOM Approval, the filing to the anti-trust department of MOFCOM at the central level pursuant to the PRC Anti-Monopoly Law (if required) and the approval by Yashili’s shareholders’ meeting



“Patent License Agreement”	the agreement dated December 1, 2015 entered into between the Patent Licensor and Dumex China in relation to the grant of right by the Patent Licensor to Dumex China to use and sub-license the Licensed Patents
“Patent Licensor”	NV Nutricia, an indirect wholly-owned subsidiary of Danone SA
“percentage ratio(s)”	the percentage ratio(s) set out in Rule 14.07 of the Listing Rules to be applied for determining the classification of a transaction
“PRC”	the People’s Republic of China, not including Taiwan, Hong Kong and Macau for the purpose of this joint announcement
“Proposed Acquisition”	the proposed acquisition of the entire equity interests in Dumex China (including the rights to be licensed or assigned to Dumex China pursuant to the Trademark License Agreement, the Patent License Agreement and the Trademark Assignment Agreement) by the Purchaser from the Seller for a consideration of €150 million (equivalent to approximately HK\$1,230 million)
“Proposed Share Subscription”	the proposed subscription for shares in Mengniu Dairy by Danone Singapore, further details of which are disclosed in the joint announcement issued by Mengniu Dairy and Yashili on July 24, 2015
“Purchaser”	Yashili International Group Limited** (雅士利國際集團有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of Yashili
“RMB”	Renminbi, the lawful currency of the PRC
“Seller”	Danone Asia Pacific Holdings Pte. Ltd., a company incorporated in Singapore and an indirect wholly-owned subsidiary of Danone SA
“Shield Combo Marks”	mean all composite trademarks in the Assigned Marks that contain, among other things, a design element featuring the shape of a shield
“Somerley”	Somerley Capital Limited, the independent financial adviser to the Yashili Independent Board Committee and the Yashili Independent Shareholders in connection with the Proposed Acquisition. Somerley is a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“subsidiaries”	has the meaning ascribed to it by the Listing Rules
“substantial shareholder”	has the meaning ascribed to it by the Listing Rules
“Tailored Nutrition Products”	mean products intended for humans with special health concerns, low birth weight, high birth weight, prematurely born, delivered via caesarean section, allergies, at risk of allergies, lactose intolerance, failure to thrive, regurgitation, digestive problems, cramps, diarrhea, colic, obesity, at risk of obesity or constipation and products labelled for hungry babies
“Trademark Assignment Agreement”	the agreement dated December 1, 2015 entered into between the Marks Assignor and Dumex China in relation to the assignment of the Assigned Marks
“Trademark License Agreement”	the agreement dated December 1, 2015 entered into among the Trademark Licensors and Dumex China in relation to the grant of right by the Trademark Licensors to Dumex China to use and sub-license the Licensed Marks
“Trademark Licensors”	NV Nutricia and International Nutrition Co. Ltd, each being an indirect wholly-owned subsidiary of Danone SA
“Yashili”	Yashili International Holdings Ltd, a company incorporated in the Cayman Islands with limited liability with its shares listed on the Main Board of the Stock Exchange (stock code: 1230)
“Yashili Board”	the board of directors of Yashili
“Yashili Directors”	the directors of Yashili
“Yashili EGM”	the extraordinary general meeting of Yashili to be convened to consider and, if thought fit, to approve the Equity Transfer Agreement, the Proposed Acquisition and all transactions contemplated thereunder
“Yashili Group”	Yashili and its subsidiaries
“Yashili Independent Board Committee”	an independent committee of the board of directors of Yashili comprising all independent non-executive Yashili Directors, namely Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway
“Yashili Independent Shareholders”	Yashili Shareholder(s) other than Danone Asia and its associates

“Yashili Share(s)”	ordinary share(s) of HK\$0.10 each in the issued share capital of Yashili
“Yashili Shareholder(s)”	person(s) whose name(s) appear on the register of members of Yashili as registered holder(s) of the Yashili Share(s)
“%”	per cent

\* *For identification purposes only.*

\*\* *English names of the PRC entities are the literal translations of their Chinese names and are included for identification purposes only.*

\* *This joint announcement contains conversion between Euro and Hong Kong dollars at Euro0.1220 to HK\$1.00. The conversion shall not be taken as representation that Euro could actually be converted into Hong Kong dollars at these rates, or at all.*

By order of the board of directors of  
**China Mengniu Dairy Company Limited**  
 中國蒙牛乳業有限公司\*  
**Sun Yiping**  
*Chief Executive Officer and  
 Executive Director*

By order of the board of directors of  
**Yashili International Holdings Ltd**  
 雅士利國際控股有限公司  
**Sun Yiping**  
*Chairman*

Hong Kong, December 1, 2015

*As at the date of this joint announcement, the Mengniu Board comprises: Ms. Sun Yiping and Mr. Bai Ying as executive directors, Mr. Ning Gaoning, Mr. Yu Xubo, Mr. Niu Gensheng, Mr. Finn S. Hansen, Ms. Liu Ding and Mr. Christian Neu as non-executive directors, Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Zhang Xiaoya, Mr. Wu Kwok Keung Andrew and Dr. Liao Jianwen as independent non-executive directors.*

*As at the date of this joint announcement, the Yashili Board comprises: Ms. Sun Yiping (Chairman), Mr. Qin Peng, Mr. Zhang Ping and Mr. Wu Jingshui as non-executive directors; Mr. Jeffrey, Minfang Lu and Mr. Li Dongming as executive directors; and Mr. Mok Wai Bun Ben, Mr. Cheng Shoutai and Mr. Lee Kong Wai Conway as independent non-executive directors.*