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*Unless otherwise defined herein, terms defined in the prospectus dated 1 June 2004 (the "Prospectus") issued by China Mengniu Dairy Company Limited (the "Company") shall have the same meanings in this announcement.*



# China Mengniu Dairy Company Limited

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

**(Stock Code: 2319)**

## **CONTINUING CONNECTED TRANSACTIONS AND FINANCIAL ASSISTANCE**

### **The Mengniu Maanshan JV Agreement**

The Directors announce that, on 18 May 2005, Mengniu, the operating subsidiary of the Company, and Mengniu Founding have entered into the Mengniu Maanshan JV Agreement to inject further capital into Mengniu Maanshan. Mengniu Founding is a connected person and this transaction constitutes a connected transaction under Chapter 14A of the Listing Rules. As each of the applicable percentage ratios (other than the profits ratio) for the capital injection is less than 2.5%, in accordance with Rule 14A.32 of the Listing Rules, the Company is subject only to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

### **The Mengniu Maanshan Intra-Group Transactions**

Mengniu Maanshan will commence operations in the second half of 2005 and will take part in the centralised sales arrangement and inventory adjustment system implemented by the Group. Mengniu Maanshan has on 18 May 2005 entered into the UHT Milk and Milk Beverage Products Centralised Sales Agreement with Mengniu. The transactions contemplated therein constitute continuing connected transactions under Chapter 14A of the Listing Rules. As each of the applicable percentage ratios (other than the profits ratio) is greater than 2.5%, in accordance with Rule 14A.35 of the Listing Rules, the centralised sales transactions are subject to reporting and announcement requirements and will require independent shareholders' approval as set out in Rules 14A.45 to 14A.48 of the Listing Rules.

Mengniu Maanshan has on 18 May 2005 entered into the UHT Milk and Milk Beverage Products Inventory Adjustment Agreement with Mengniu and other Mengniu Subsidiaries. Pursuant to Rule 14A.25 of the Listing Rules and as requested by the Stock Exchange, the current proposed caps in respect of these inventory adjustment transactions would have to be aggregated with the proposed restated caps in respect of the continuing connected transaction as set out under paragraph 4(A) to this announcement. Such aggregation would result in each of the applicable percentage ratios (other than the profits ratio) for the inventory adjustment transactions being less than 2.5%. In accordance with Rule 14A.32 of the Listing Rules, the Company is subject only to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

Mengniu Maanshan has on 18 May 2005 entered into a Yogurt Products Centralised Sales Agreement with Mengniu Beijing. The transactions contemplated therein constitute continuing connected transactions under Chapter 14A of the Listing Rules. As each of the applicable percentage ratios (other than the profits ratio) is greater than 2.5%, in accordance with Rule 14A.35 of the Listing Rules, the centralised sales transactions are subject to reporting and announcement requirements and will require independent shareholders' approval as set out in Rules 14A.45 to 14A.48 of the Listing Rules.

Mengniu Maanshan has on 18 May 2005 entered into the Yogurt Products Inventory Adjustment Agreement with Mengniu and other Mengniu Subsidiaries which manufacture yogurt products and also Mengniu Beijing. Pursuant to Rule 14A.25 of the Listing Rules and as requested by the Stock Exchange, the current proposed caps in respect of these inventory adjustment transactions would have to be aggregated with the proposed restated caps in respect of the continuing connected transaction as set out under paragraph 4(B) to this announcement. Such aggregation would result in each of the applicable percentage ratios (other than the profits ratio) for the inventory adjustment transactions being greater than 2.5%. In accordance with Rule 14A.35 of the Listing Rules, these inventory adjustment transactions are subject to the reporting and announcement requirements and will require independent shareholders' approval and must comply with the requirements as set out in Rules 14A.45 to 14A.48 of the Listing Rules.

Mengniu Maanshan has on 18 May 2005 entered into the Ice Cream Products Inventory Adjustment Agreement with other Mengniu Subsidiaries which manufacture ice cream products and also Mengniu. Pursuant to Rule 14A.25 of the Listing Rules and as requested by the Stock Exchange, the current proposed caps in respect of these inventory adjustment transactions would have to be aggregated with the approved caps in respect of the continuing connected transaction as set out under category 17 on page 117 to 118 of the Prospectus. Such aggregation would result in each of the applicable percentage ratios (other than the profits ratio) for the inventory adjustment transactions being greater than 2.5%. In accordance with Rule 14A.35 of the Listing Rules, these inventory adjustment transactions are subject to the reporting and announcement requirements and will require independent shareholders' approval and must comply with the requirements as set out in Rules 14A.45 to 14A.48 of the Listing Rules.

Mengniu Maanshan has on 18 May 2005 entered into the inventory adjustment agreement for the transfer of raw materials and packaging materials with other Mengniu Subsidiaries and also Mengniu. Pursuant to Rule 14A.25 of the Listing Rules and as requested by the Stock Exchange, the current proposed caps in respect of these inventory adjustment transactions would have to be aggregated with the approved caps in respect of the continuing connected transaction as set out under category 18 on page 118 to 119 of the Prospectus. Such aggregation would result in each of the applicable percentage ratios (other than the profits ratio) for the inventory adjustment transactions being greater than 2.5%. In accordance with Rule 14A.35 of the Listing Rules, these inventory adjustment transactions are subject to reporting and announcement requirements and will require independent shareholders' approval and must comply with the requirements as set out in Rules 14A.45 to 14A.48 of the Listing Rules.

## **Provision of guarantees by Mengniu for loans to certain Mengniu Subsidiaries**

Mengniu has on 18 May 2005 entered into the Guarantee Agreements with eight Mengniu Subsidiaries to act as guarantor in loans to be borrowed by such Mengniu Subsidiaries, at no consideration. From the recipient of the guarantee's perspective, that is from Mengniu Subsidiaries' perspective, the guarantee is a continuing connected transaction and financial assistance provided by Mengniu, a connected person. Pursuant to Rule 14A.65(4) of the Listing Rules, this transaction is exempt from the reporting, announcement and independent shareholders' approval requirements. From Mengniu's perspective, such financial assistance is provided by the issuer to the Mengniu Subsidiaries, who are connected persons. Such financial assistance is subject to reporting and announcement requirements and independent shareholders' approval requirements under Rule 14A.63 of the Listing Rules.

## **Restating of caps**

In respect of the transfer of UHT milk and milk beverage products between Mengniu and Mengniu Subsidiaries as disclosed in the Prospectus under category 13, the estimated caps for the year ended 2005 and 2006 will be exceeded. Pursuant to Rule 14A.25 of the Listing Rules and as requested by the Stock Exchange, the proposed restated caps in respect of these inventory adjustment transactions as mentioned in paragraph 4(A) to this announcement would have to be aggregated with the proposed caps in respect of the inventory adjustment transactions as set out under paragraph 2(B) to this announcement. Such aggregation would result in each of the applicable percentage ratios (other than the profits ratio) being less than 2.5%. In accordance with Rule 14A.32 of the Listing Rules, the Company is subject only to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules.

In respect of the transfer of yogurt products amongst Mengniu, Mengniu Beijing and those Mengniu Subsidiaries which manufacture yogurt products as disclosed in the Prospectus under category 16, the estimated caps for the year ended 2005 and 2006 will be exceeded. Pursuant to Rule 14A.25 of the Listing Rules and as requested by the Stock Exchange, the proposed restated caps in respect of these inventory adjustment transactions as mentioned in paragraph 4(B) to this announcement would have to be aggregated with the proposed caps in respect of the inventory adjustment transactions as set out under paragraph 2(D) to this announcement. Such aggregation would result in each of the applicable percentage ratios (other than the profits ratio) being greater than 2.5%. In accordance with Rule 14A.35 of the Listing Rules, these inventory adjustment transactions are subject to the reporting and announcement requirements and will require independent shareholders' approval and must comply with the requirements as set out in Rules 14A.45 to 14A.48 of the Listing Rules.

Approval of the independent shareholders for the Mengniu Maanshan Intra-Group Transactions (for which the percentage ratios exceed 2.5%), the Guarantee Agreements and the restated caps in relation to the continuing connected transaction as mentioned in paragraph 4(B) to this announcement will be sought at the upcoming AGM. An Independent Board Committee has been formed to advise the Independent Shareholders as to the fairness and reasonableness of the Mengniu Maanshan Intra-Group Transactions (for which the percentage ratios exceed 2.5%), the Guarantee Agreements and the restated caps in relation to the continuing connected transaction as mentioned in paragraph 4(B) to this announcement. Watterson Asia Limited, an independent financial adviser has been appointed to advise the Independent Board Committee and the independent shareholders in this respect.

A circular containing details of the Mengniu Maanshan Intra-Group Transactions (for which the percentage ratios exceed 2.5%), the Guarantee Agreements and restated caps in relation to the continuing connected transaction as mentioned in paragraph 4(B) to this announcement, the letter of advice from the independent financial adviser, the recommendation of the Independent Board Committee and the notice of the AGM will be despatched to the Shareholders as soon as possible.

## **CHAPTER 14A OF THE LISTING RULES**

Mengniu is a non wholly-owned subsidiary of the Company. Four executive directors of the Company, who are connected persons of the Company, namely, Niu Gensheng, Lu Jun, Sun Yubin and Yang Wenjun who are also Founding Individuals and another five Founding Individuals (who are connected persons of the Company) together are entitled to exercise more than 10% of the voting power of Mengniu. The Founding Individuals have been acting as the controlling group of the Mengniu business since its inception in 1999 and as a result, they as a group are the controlling shareholders of the Company and they are connected persons of the Company. Accordingly, pursuant to Rule 14A.11(5) of the Listing Rules, Mengniu is a connected person of the Company.

Due to Mengniu being a connected person of the Company, all of the Mengniu Subsidiaries are also connected persons of the Company pursuant to Rule 14A.11(6) of the Listing Rules.

Accordingly, all transactions between Mengniu and the Mengniu Subsidiaries, or amongst the Mengniu Subsidiaries, are connected transactions under the Listing Rules.

## **THE TRANSACTIONS**

### **(1) Maanshan JV Agreement**

#### **(a) Background**

Mengniu Maanshan completed its registration with PRC authorities in February 2005 with a registered capital of RMB3,000,000 of which Mengniu contributed RMB2,985,000, representing 99.5% of the registered capital and Mengniu Founding contributed RMB15,000, representing 0.5% of the registered capital. The profit and loss sharing ratio is the same as that of Mengniu and Mengniu Founding's respective capital contribution to the joint venture, that is: Mengniu 99.5% and Mengniu Founding 0.5%. The board of directors of Mengniu Maanshan is composed of three directors. Two of the directors were appointed by Mengniu and the other director was appointed by Mengniu Founding. Based on the initial investment of RMB3,000,000, the applicable percentage ratios (other than the profits ratio) for the total initial investment are each less than 0.1% and hence fell within the de minimis exemption under Rule 14A.31(2). Upon the approval of the board on 18 May 2005, Mengniu and Mengniu Founding will inject funds to increase the registered capital of Mengniu Maanshan to RMB110 million. Each of Mengniu and Mengniu Founding will further inject capital of RMB106,465,000 and RMB535,000 respectively, which will both be financed out of their respective internal resources.

#### **(b) Reasons for establishing Mengniu Maanshan**

Mengniu Maanshan is located in Maanshan, Anhui province. In order to better serve the demand in the eastern and southern part of China, Mengniu Maanshan has been established to expand the Group's production base in the Yangtze River Delta area. Mengniu Maanshan will conduct manufacturing of UHT milk and milk beverages, yogurt products and ice cream products.

The Directors (including the independent non-executive directors of the Company) are of the view that the formation and the further injection of capital into the joint venture is on normal commercial terms which are fair and reasonable and is in the interest of the Company and its shareholders as a whole. Further injection of RMB107 million as capital by Mengniu and Mengniu Founding into Mengniu Maanshan constitutes a connected transaction under Rule 14A.13(6) of the Listing Rules. Based on the aggregate capital investment injected by Mengniu and Mengniu Founding, that is RMB110 million, each of the applicable percentage ratios (other than the profits ratio) for the increase in registered capital of Mengniu Maanshan is less than 2.5%. In accordance with Rule 14A.32 of the Listing Rules, the transaction is subject only to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

## **(2) Mengniu Maanshan Intra-Group Transactions**

### **(A) *Centralised UHT milk and milk beverage products sales arrangements by Mengniu***

#### *(a) Background*

As disclosed in page 111 of the Prospectus, the Group implements a centralised sales arrangement for its UHT milk and milk beverage products whereby such products are centralised for sale, billing and invoicing to distributors by Mengniu. As Mengniu Maanshan will manufacture UHT milk and milk beverage products it will sell its UHT milk and milk beverage products to Mengniu for further distribution.

These transactions occur as a result of the overall logistics management under the centralised sales arrangement which are conducted in the ordinary course of business on normal commercial terms and will benefit the Group as a whole as efficiency is increased.

#### *(b) Agreement and Terms*

The centralised sales arrangement is covered by the UHT Milk and Milk Beverage Products Centralised Sales Agreement entered into by Mengniu and Mengniu Maanshan on 18 May 2005. It is for an initial period commencing on the date of the agreement ending 31 December 2007.

Under the UHT Milk and Milk Beverage Products Centralised Sales Agreement, Mengniu will pay to Mengniu Maanshan on a monthly basis for all sales made that month.

#### *(c) Pricing Standard*

The UHT milk and milk beverage products will be sold to Mengniu at an intra-group rate as disclosed in the Prospectus. Such rate is determined by a formula, as follows:

*Intra-Group Rate = Wholesale price of the UHT milk and milk beverage products x (1 – Y%\*)*

\*Y = a variable percentage calculated based on the expected amount of general expenses to be allocated to those manufacturing companies in the Group participating in the centralised sales arrangement. The general expenses consist of staff wages, marketing expenses, transport costs, storage costs and disbursements. As with other centralised sales transactions of the Group that are disclosed in the Prospectus, Y is expected to be capped at 3% going forward.

The UHT milk and milk beverage products are transferred and booked at this intra-group rate for the purposes of the centralised sales arrangement. As these transactions are conducted for overall logistics management, there are no universal standards for comparison. There is therefore no market or comparison price for such centralised sales arrangements in China.

(d) *Anticipated Annual Figures*

There is no historical data for this transaction but it is anticipated that they will occur after the entering into of the UHT Milk and Milk Beverage Products Centralised Sales Agreement. It is anticipated that on an annual basis, the maximum aggregate amounts of the centralised sales, the caps for each of the three financial years ending 31 December 2007 will not exceed RMB70,000,000, RMB200,000,000 and RMB240,000,000 respectively. Since Mengniu Maanshan has not yet commenced production, these caps are mainly extrapolated from its planned production capacity and by making reference to factors such as the growth rate of turnover of the Group over the past year, expected increase in market share and expected increase in market demand and production capacity. In respect of the cap for the year ended 31 December 2005, it has been taken into account that Mengniu Maanshan will only commence operation in the second half of 2005. On the contrary, since the majority of the participating subsidiaries in respect of the continuing connected transaction as disclosed under category 11 on page 111 to 112 of the Prospectus have been in operation and that historical transaction data were available, hence, the approved caps were mainly extrapolated from factors such as historical production and sales data and expected growth in production and sales. Other factors taken into consideration were similar to those as for Mengniu Maanshan.

Based on the anticipated aggregate maximum amounts, each of the applicable percentage ratios (other than the profits ratio) for the centralised sales transactions is greater than 2.5%. In accordance with Rule 14A.35 of the Listing Rules, the centralised sales transactions are subject to reporting and announcement requirements and will require independent shareholders' approval and must comply with requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules.

**(B) *Transfer of UHT milk and milk beverage products amongst Mengniu, Mengniu Maanshan and other Mengniu Subsidiaries for inventory adjustment purposes***

(a) *Background*

As disclosed in page 113 of the Prospectus, as part of the centralised sales system, delivery of the UHT milk and milk beverage products to the distributors is made by those Mengniu Subsidiaries that manufacture the UHT milk and milk beverage products. In meeting delivery orders there are occasionally shortfalls in the inventories of particular Mengniu Subsidiaries. Where this occurs the respective Mengniu Subsidiary purchases stock from Mengniu or other members to make up for the shortfalls.

These transactions occur as a result of the overall logistics management under the inventory adjustment arrangement which are conducted in the ordinary course of business on normal commercial terms and will benefit the Group as a whole as they represent an efficient use of excess inventory whilst allowing the respective Mengniu Subsidiary to meet delivery orders.

(b) *Agreement and Terms*

The inventory adjustment transactions are covered by the UHT Milk and Milk Beverage Products Inventory Adjustment Agreement entered into by Mengniu, Mengniu Maanshan and the Mengniu Subsidiaries which manufacture UHT milk and milk beverage products on 18 May 2005. It is for an initial period commencing on the date of this agreement ending 31 December 2007.

Under the UHT Milk and Milk Beverage Products Inventory Adjustment Agreement, the transferee will make payment to the transferor on a monthly basis for all orders made that month.

(c) *Pricing Standard*

The UHT milk and milk beverage products will be transferred at an intra-group rate as disclosed in the Prospectus. Such rate is determined by a formula, as follows:

*Intra-Group Rate = Wholesale price of the UHT milk and milk beverage products × (1 – Y%\*)*

\*Y = a variable percentage calculated based on the expected amount of general expenses to be allocated to those manufacturing companies in the Group participating in the inventory adjustment arrangement. The general expenses consist of staff wages, marketing expenses, transport costs, storage costs and disbursements. As with other inventory adjustment transactions of the Group that are disclosed in the Prospectus, Y is expected to be capped at 3% going forward.

The UHT milk and milk beverage products are transferred and booked at this intra-group rate for the purposes of the inventory adjustment arrangement. As these transactions are conducted for overall logistics management, there are no universal standards for comparison. There is therefore no market or comparison price for such inventory adjustment arrangements in China.

*(d) Anticipated Annual Figures*

There is no historical data for this transaction but it is anticipated that they will occur after the entering into of the UHT Milk and Milk Beverage Products Inventory Adjustment Agreement. It is anticipated that on an annual basis, the maximum aggregate amounts of the inventory adjustment caps for each of the three financial years ending 31 December 2007 will not exceed RMB2,000,000, RMB6,000,000 and RMB10,800,000 respectively. Since Mengniu Maanshan has not yet commenced production, these caps are mainly extrapolated from its planned production capacity and by making reference to factors such as the growth rate of turnover of the Group over the past year, sales and expected increase in market share and expected increase in demand and production capacity. In respect of the cap for the year ended 31 December 2005, it has been taken into account that Mengniu Maanshan will only be operation for the second half of 2005. On the contrary, since the majority of the participating subsidiaries in respect of the continuing connected transaction as disclosed under paragraph 4(A) to this announcement have been in operation and that historical transaction data were available, hence, the proposed restated caps are mainly extrapolated from factors such as historical production and sales data and expected growth in production and sales. Other factors taken into consideration are similar to those as for Mengniu Maanshan.

Pursuant to Rule 14A.25 of the Listing Rules and as requested by the Stock Exchange, the current proposed caps in respect of these inventory adjustment transactions as mentioned in this paragraph 2(B) would have to be aggregated with the proposed restated caps in respect of the continuing connected transaction under paragraph 4(A) to this announcement. Such aggregation would result in each of the applicable percentage ratios (other than the profits ratio) for the inventory adjustment transactions being less than 2.5%. In accordance with Rule 14A.34 of the Listing Rules, the inventory adjustment transactions are subject only to reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

**(C) Centralised yogurt products sales arrangement by Mengniu Beijing**

*(a) Background*

As disclosed in page 114 of the Prospectus, the Group implements a centralised sales arrangement for its yogurt products whereby such products are centralised for sale, billing and invoicing to distributors by Mengniu Beijing. As Mengniu Maanshan will manufacture yogurt products it will sell its yogurt products to Mengniu Beijing for further distribution. These sales do not involve delivery to Mengniu Beijing as these transactions are operational transactions only.

These transactions occur as a result of the overall logistics management under the centralised sales arrangement which are conducted in the ordinary course of business on normal commercial terms and will benefit the Group as a whole as efficiency is increased.

(b) *Agreement and Terms*

The centralised sales arrangement is covered by the Yogurt Products Centralised Sales Agreement entered into by Mengniu Beijing and Mengniu Maanshan on 18 May 2005. It is for an initial period commencing on the date of the agreement ending 31 December 2007.

Under the Yogurt Products Centralised Sales Agreement, Mengniu Beijing will pay Mengniu Maanshan on a monthly basis for all orders made that month.

(c) *Pricing Standard*

The yogurt products will be sold to Mengniu Beijing at an intra-group rate as disclosed in the Prospectus. Such rate is determined by a formula, as follows:

$$\text{Intra-Group Rate} = \text{Wholesale price of the Yogurt Products} \times (1 - Y\%*)$$

\*Y = a variable percentage calculated based on the expected amount of general expenses to be allocated to those manufacturing companies in the Group participating in the centralised sales arrangement. The general expenses consist of staff wages, marketing expenses, transport costs, storage costs and disbursements. As with other centralised sales transactions of the Group that are disclosed in the Prospectus, Y is expected to be capped at 3% going forward.

The yogurt products are transferred and booked at this intra-group rate for the purposes of the centralised sales arrangement. As these transactions are conducted for overall logistics management, there are no universal standards for comparison. There is therefore no market or comparison price for such centralised sales arrangements in China.

(d) *Anticipated Annual Figures*

There is no historical data for this transaction but it is anticipated that they will occur after the entering into of the Yogurt Products Centralised Sales Agreement. It is anticipated that the production lines for Mengniu Maanshan shall only commence in the second half of 2005, and on an annual basis, the maximum aggregate amounts of the centralised sales caps for each of the three financial years ending 31 December 2007 will not exceed RMB300,000,000, RMB720,000,000 and RMB1,068,000,000 respectively. Since Mengniu Maanshan has not yet commenced production, these caps are mainly extrapolated from its planned production capacity and by making reference to factors such as the growth rate of turnover of the Group over the past year, sales and expected increase in market share and expected increase in demand and production capacity. On the contrary, since the majority of the participating subsidiaries in respect of the continuing connected transaction as disclosed under category 14 on page 114 to 115 have been in operation and that historical transaction data were available, hence, the approved caps were mainly extrapolated from factors such as historical production and sales data and expected growth in production and sales. Other factors taken into consideration were similar to those as for Mengniu Maanshan.

The Directors (including the independent non-executive directors of the Company) are of the view that the terms of the Yogurt Products Centralised Sales Agreement are on normal commercial terms which are fair and reasonable and is in the interest of the Company and its shareholders as a whole. Based on the anticipated aggregate maximum amounts, each of the applicable percentage ratios (other than the profits ratio) for the centralised sales transactions is greater than 2.5%. These transactions constitute continuing connected transactions and in accordance with Rule 14A.35 of the Listing Rules, the centralised sales transactions are subject to reporting and announcement requirements and will require independent shareholders' approval and must comply with requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules.



**(D) *Transfer of yogurt products amongst Mengniu, Mengniu Maanshan and other Mengniu Subsidiaries for inventory adjustment purposes***

**(a) *Background***

As disclosed in page 116 of the Prospectus, as part of the centralised sales system, delivery of yogurt products to the distributors is made by those Mengniu Subsidiaries that manufacture the yogurt products. In meeting delivery orders there are occasionally shortfalls in the inventories of particular Mengniu Subsidiaries. Where this occurs the respective Mengniu Subsidiary purchases stock from Mengniu or other Mengniu Subsidiaries to make up for the shortfalls.

These transactions occur as a result of the overall logistics management under the centralised sales arrangement which are conducted in the ordinary course of business on normal commercial terms and will benefit the Group as a whole as they represent an efficient use of excess inventory whilst allowing the respective Mengniu Subsidiary to meet delivery orders.

**(b) *Agreement and Terms***

The inventory adjustment transactions are covered by the Yogurt Products Inventory Adjustment Agreement entered into by Mengniu Maanshan and all the Mengniu Subsidiaries which manufacture yogurt, Mengniu and Mengniu Beijing on 18 May 2005. It is for an initial period commencing on the date of this agreement ending 31 December 2007.

Under the inventory adjustment agreement, the transferee shall make payment on a monthly basis for all orders made that month.

**(c) *Pricing Standard***

The yogurt products will be transferred at an intra-group rate as disclosed in the Prospectus. Such rate is determined by a formula, as follows:

$$\text{Intra-Group Rate} = \text{Wholesale price of the yogurt products} \times (1 - Y\%*)$$

\*Y = a variable percentage calculated based on the expected amount of general expenses to be allocated to those manufacturing companies in the Group participating in the inventory adjustment arrangement. The general expenses consist of staff wages, marketing expenses, transport costs, storage costs and disbursements. As with other inventory adjustment transactions of the Group that are disclosed in the Prospectus, Y is expected to be capped at 3% going forward.

The yogurt products are transferred and booked at this intra-group rate for the purposes of the inventory adjustment arrangement. As these transactions are conducted for overall logistics management, there are no universal standards for comparison. There is therefore no market or comparison price for such inventory adjustment arrangements in China.

**(d) *Anticipated Annual Figures***

There is no historical data for this transaction but it is anticipated that they will occur after the entering into of the inventory adjustment agreement. It is anticipated that on an annual basis, the maximum aggregate amounts of the centralised sales, the caps, for each of the three financial years ending 31 December 2007 will not exceed RMB12,000,000, RMB43,200,000 and RMB77,760,000 respectively. Since Mengniu Maanshan has not yet commenced production, these caps are mainly extrapolated from its planned production capacity and by making reference to factors such as the growth rate of turnover of the Group over the past year, sales and expected increase in market share and expected increase in demand and production capacity. In respect of the cap for the year ended 31 December 2005, it has been taken into account that Mengniu Maanshan will only be operation for the second half of 2005. On the contrary, since the majority of the participating subsidiaries in respect of the continuing connected transaction as disclosed

under paragraph 4(B) to this announcement have been in operation and that historical transaction data were available, hence, the proposed restated caps are mainly extrapolated from factors such as historical production and sales data and expected growth in production and sales. Other factors taken into consideration are similar to those as for Mengniu Maanshan.

Pursuant to Rule 14A.25 of the Listing Rules and as requested by the Stock Exchange, the current proposed caps in respect of these inventory adjustment transactions as mentioned in this paragraph 2(D) would have to be aggregated with the revised caps in respect of the continuing connected transaction as set out under paragraph 4(B) to this announcement. Such aggregation would result in each of the applicable percentage ratios (other than the profits ratio) for the inventory adjustment transactions being greater than 2.5%. Hence, these transactions constitute continuing connected transactions under Rule 14A.35 of the Listing Rules and are subject to reporting and announcement requirements and will require independent shareholders' approval and must comply with requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules.

**(E) *Sales of ice cream products amongst Mengniu, Mengniu Maanshan and other Mengniu Subsidiaries for inventory adjustment purposes***

*(a) Background*

As disclosed in page 117 of the Prospectus, an inventory adjustment mechanism exists between those Mengniu Subsidiaries which manufacture ice cream products whereby they supply each other with finished ice cream products whenever shortages arise in another member. It is intended for Mengniu Maanshan to be a key manufacturer of ice cream products for the Mengniu Group. Since it is intended to produce the widest variety of ice cream products, it is expected that it may encounter the most frequent fluctuation in its inventory.

These transactions occur as a result of the overall logistics management under the inventory adjustment arrangement which are conducted in the ordinary course of business on normal commercial terms and will benefit the Group as a whole as efficiency they represent an efficient use of excess inventory whilst allowing the respective Mengniu Subsidiary to meet delivery orders.

*(b) Agreement and Terms*

The inventory adjustment transactions are covered by the Ice Cream Products Inventory Adjustment Agreement entered into by Mengniu Maanshan and all the Mengniu Subsidiaries who manufacture ice cream products including Mengniu on 18 May 2005. It is for an initial period commencing on the date of this agreement ending 31 December 2007.

Under the Ice Cream Products Inventory Adjustment Agreement, the transferee shall make payment on a monthly basis for all orders made that month.

*(c) Pricing Standard*

The ice cream products will be transferred at an intra-group rate as disclosed in the Prospectus. Such rate is determined by a formula, as follows:

$$\text{Intra-Group Rate} = \text{Wholesale price of the ice cream products} \times (1 - Y\%^{*})$$

\*Y = a variable percentage calculated based on the expected amount of general expenses to be allocated to those manufacturing companies in the Group participating in the inventory adjustment arrangement. The general expenses consist of staff wages, marketing expenses, transport costs, storage costs and disbursements. As with other inventory adjustment transactions of the Group that are disclosed in the Prospectus, Y is expected to be capped at 3% going forward.

The ice cream products are transferred and booked at this intra-group rate for the purposes of the inventory adjustment arrangement. As these transactions are conducted for overall logistics management, there are no universal standards for comparison. There is therefore no market or comparison price for such inventory adjustment arrangements in China.

(d) *Anticipated Annual Figures*

There is no historical data for this transaction but it is anticipated that they will occur after the entering into of the inventory adjustment agreement. It is anticipated that on an annual basis, the maximum aggregate amounts of the centralised sales, the caps for each of the three financial years ending 31 December 2007 will not exceed RMB40,000,000, RMB80,000,000 and RMB96,000,000 respectively. Since Mengniu Maanshan has not yet commenced production, these caps are mainly extrapolated from its planned production capacity and by making reference to factors such as the growth rate of turnover of the Group over the past year, sales and expected increase in market share and expected increase in demand and production capacity. In respect of the cap for the year ended 31 December 2005, it has been taken into account that Mengniu Maanshan will only be in operation for the second half of 2005. On the contrary, since the majority of the participating subsidiaries in respect of the continuing connected transaction as disclosed under category 17 on page 117 to 118 have been in operation and that historical transaction data were available, hence, the approved caps were mainly extrapolated from factors such as historical production and sales data and expected growth in production and sales. Other factors taken into account were similar to those as for Mengniu Maanshan.

Pursuant to Rule 14A.25 of the Listing Rules and as requested by the Stock Exchange, the current proposed caps in respect of these inventory adjustment transactions as mentioned in this paragraph 2(E) would have to be aggregated with the approved caps in respect of the continuing connected transaction as set out under category 17 on page 117 to 118 of the Prospectus. Such aggregation would result in each of the applicable percentage ratios (other than the profits ratio) for the inventory adjustment transactions being greater than 2.5%. Hence, these transactions constitute continuing connected transactions under Rule 14A.35 of the Listing Rules and are subject to reporting and announcement requirements and will require independent shareholders' approval and must comply with requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules.

**(F) *Ongoing inventory adjustment of raw materials and packaging materials amongst Mengniu, Mengniu Subsidiaries and Mengniu Maanshan***

(a) *Background*

As disclosed in page 118 of the Prospectus, as part of an inventory adjustment mechanism, certain raw materials are centrally purchased by Mengniu in order to enjoy the advantage of bulk purchase and then transferred by Mengniu to other Mengniu Subsidiaries and excess raw materials and packaging materials are transferred to other members whenever shortages arise. Mengniu Maanshan will join such inventory adjustment mechanism.

This inventory adjustment mechanism is beneficial for all parties involved as it minimises wastage and increases the efficient use of resources.

(b) *Agreement and Terms*

The inventory adjustment transactions are covered by the inventory adjustment agreement for raw materials and packaging materials entered into by all the Mengniu Subsidiaries, Mengniu and Mengniu Maanshan on 18 May 2005. It is for an initial period commencing on the date of this agreement ending 31 December 2007.

Under the inventory adjustment agreement, the transferee makes payment on a monthly basis for all orders made that month.

*(c) Pricing Standard*

Inventory adjustment of such raw materials and packaging materials between the companies is at cost, which is the same as the pricing standard as disclosed in the Prospectus.

*(d) Anticipated Annual Figures*

There is no historical data for this transaction but it is anticipated that they will occur after the entering into of the inventory adjustment agreement. It is anticipated that on an annual basis, the maximum aggregate amounts of the inventory adjustment caps for each of the three financial years ending 31 December 2007 will not exceed RMB65,000,000, RMB195,000,000 and RMB254,000,000 respectively. Since Mengniu Maanshan has not yet commenced production, these caps are mainly extrapolated from its planned production capacity and by making reference to factors such as the growth rate of turnover of the Group over the past year, sales and expected increase in market share and expected increase in demand and production capacity. In respect of the cap for the year ended 31 December 2005, it has been taken into account that Mengniu Maanshan will only be in operation for the second half of 2005. Certain raw materials such as imported milk powder and white sugar are centrally purchased by Mengniu in order to enjoy the advantage of bulk purchase. Since the major products manufactured by Mengniu Maanshan are yogurt products which require the above raw materials, the amount of this transaction is significant. On the contrary, since the majority of the participating subsidiaries in respect of the continuing connected transaction as disclosed under category 18 on page 118 to 119 have been in operation and that historical transaction data were available, hence, the approved caps were mainly extrapolated from factors such as historical production and sales data and expected growth in production and sales. Other factors taken into consideration were similar to those as for Mengniu Maanshan.

Pursuant to Rule 14A.25 of the Listing Rules and as requested by the Stock Exchange, the current proposed caps in respect of the inventory adjustment transactions as mentioned in this paragraph 2(F) would have to be aggregated with the approved caps in respect of the continuing connected transaction as set out under category 18 on page 118 to 119 of the Prospectus. Such aggregation would result in each of the applicable percentage ratios (other than the profits ratio) for the inventory adjustment transactions being greater than 2.5%. Hence these transactions constitute continuing connected transactions under Rule 14A.35 of the Listing Rules and are subject to reporting and announcement requirements and will require independent shareholders' approval and must comply with requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules.

### **(3) Provision of guarantees by Mengniu for loans to certain Mengniu Subsidiaries**

*(a) Background*

To further aid in the expansion of Mengniu Luannan, Mengniu Tangshan, Mengniu Beijing, Mengniu Jiaozuo, Mengniu Taian, Mengniu Shenyang, Mengniu Shanxi and Mengniu Maanshan, Mengniu has agreed to act as guarantor for bank loans to be obtained by Mengniu Subsidiaries.

*(b) Agreement and Terms*

The guarantees are covered by a Guarantee Agreement entered into with each of the Mengniu Subsidiaries as set out in paragraph (a) with Mengniu on 18 May 2005. Each agreement expires on 31 December 2007.

*(c) Pricing Standard*

Mengniu will provide these guarantees to the Mengniu Subsidiaries at no consideration, which is the same as for the guarantees as disclosed in the Prospectus.

**(d) *Anticipated Annual Figures***

Based on the past rate of growth and capital needs of each of the participating Mengniu Subsidiaries for the past year, it is anticipated that on an annual basis, the maximum bank loan borrowings, the caps, for the participating Mengniu Subsidiaries for each of the three financial years ending 31 December 2007 will not exceed RMB580,000,000, RMB696,000,000 and RMB765,600,000.

Based on the anticipated aggregate maximum amounts, each of the applicable percentage ratios (other than the profits ratio) are greater than 2.5%. The guarantees constitute continuing connected transactions and in accordance with Rule 14A.63 of the Listing Rules, the guarantees are subject to reporting and announcement requirements and independent shareholders' approval requirements.

The guarantees are also financial assistance provided by Mengniu. Pursuant to Rule 14A.65(4), such Mengniu Subsidiaries, being beneficiaries to the Guarantee Agreement and connected persons as recipients of the financial assistance are exempt from reporting and announcement requirements and independent shareholders' approval requirements of Chapter 14A. Mengniu, the provider of the financial assistance, which has been provided for the benefit of a connected person is subject to reporting and announcement requirements and independent shareholders' approval requirements under Rule 14A.63 of the Listing Rules.

**(4) Transactions expected to exceed the cap estimated of 2005 and 2006**

**(A) *Transfer of UHT milk and milk beverage products between Mengniu and certain Mengniu Subsidiaries for inventory adjustment purposes***

**(a) *Background***

As disclosed as category 13 on page 113 in the Prospectus, the estimated cap amount of this category of transaction for the year 2005 and 2006 was capped at RMB5,700,000 and RMB8,000,000 respectively. The Company confirms that the cap, as disclosed in the Prospectus, for the year 2004 had been fully complied with. As at the date of this announcement, the Company further confirms that the approved cap for the year 2005 has not been exceeded.

Based on the current calculations, the above maximum aggregate amount for the year 2005 and 2006 has been revised to be RMB28,800,000 and RMB51,840,000 respectively. These caps are extrapolated from the expanding sales network of the Group, adjustments to product structure and launching of new products in the coming two years.

Prior to 2004, the amount of the UHT Milk and Milk Beverage Products transferred between Mengniu Subsidiaries for inventory adjustment purposes was not significant. This was mainly due to the limited varieties of core products manufactured by Mengniu and Mengniu Subsidiaries at that time. During 2005, the Group has strategically expanded its product portfolio, focusing on the high value-added UHT milk and milk beverage products and will continue to develop new products.

From January to March 2005, 26 new UHT milk and milk beverage products were introduced, and most of these were manufactured by Mengniu. The existing UHT milk and milk beverage products continued to be manufactured by the other Mengniu Subsidiaries. Accordingly, the demand for transferring UHT milk and milk beverages between Mengniu and the Mengniu Subsidiaries increased rapidly. During this period, the amount being transferred between Mengniu and the Mengniu Subsidiaries grew almost five times compared to the corresponding period last year.

**(b) *Anticipated annual figures***

For the period from January to March in 2004, the amount transferred was approximately RMB840,000 and for the same period in 2005, the amount was approximately RMB4,595,000.

Based on this rate of growth, it is therefore estimated that the amount for this category of transaction will grow at least five times in 2005 on average as compared to 2004 in aggregate. The aggregate annual amount for this category of transaction was RMB4,000,000 in 2004 and the projected figures in 2005 will be RMB28,800,000. The Company expects that this category of transaction will achieve continuous growth in 2006 and the projected figure in 2006 will be RMB51,840,000 .

The Directors (including the independent non-executive directors of the Company) are of the view that the terms of the UHT milk and milk beverage products between Mengniu and certain Mengniu Subsidiaries for inventory adjustment purposes and the restated caps are on normal commercial terms which are fair and reasonable and is in the interest of the Company and its shareholders as a whole. Pursuant to Rule 14A.25 of the Listing Rules and as requested by the Stock Exchange, the proposed restated caps in respect of these inventory adjustment transactions as mentioned in this paragraph 4(A) would have to be aggregated with the proposed caps in respect of the inventory adjustment transactions as set out under paragraph 2(B) to this announcement. Such aggregation would result in each of the applicable percentage ratios (other than the profits ratio) for the inventory adjustment transactions being less than 2.5%. In accordance with Rule 14A.34 of the Listing Rules, the inventory adjustment transactions are subject to reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

**(B) *Transfer of yogurt products amongst Mengniu, Mengniu Beijing and certain Mengniu Subsidiaries for inventory adjustment purposes***

*(a) Background*

As disclosed under category 16 on page 116 in the Prospectus, the estimated cap amount of this category of transaction for the year 2005 and 2006 was capped at RMB6,000,000 and RMB8,000,000 respectively. The Company confirms that the cap, as disclosed in the Prospectus, for the year 2004 had been complied with. The Company further confirms that the approved cap for the year 2005 will not be exceeded prior to obtaining the approval of the independent shareholders in relation to the revised caps for the particular connected transaction which will be sought at the upcoming AGM.

Based on the current forecast, the above maximum aggregate amount for the year 2005 and 2006 will be RMB20,000,000 and RMB48,000,000 respectively. These caps are extrapolated, based on the estimated expansion in the sales network of the Group, adjustment in product portfolio and introduction of new products in the coming two years.

Prior to 2004, the amount of yogurt products transferred between Mengniu Subsidiaries for inventory adjustment purposes was not significant. This was mainly due to limited varieties of yogurt products manufactured by Mengniu and Mengniu Subsidiaries, which required insignificant inventory adjustments. In 2005, the Group strategically expanded its product portfolio, focusing on the high value-added yogurt products and will continue to develop new products.

From January to March 2005, the Company introduced 23 new yogurt products which are mainly manufactured by Mengniu Beijing while other Mengniu Subsidiaries will be focusing on the production of existing yogurt products.

In the first quarter of 2005, the amount of such transaction has already reached RMB3,000,000. The amount for each of the second and third quarter of 2005 is expected to double when compared with that of the first quarter, as these periods are the peak seasons of yogurt sales.

(b) *Estimated Annual Figures*

Based on the estimated growth in sales for the new and existing yogurt products, the maximum aggregate annual amount for this category of transaction has been revised to for the years ended 31 December 2005 and 2006, respectively, RMB20,000,000 and RMB48,000,000.

Pursuant to Rule 14A.25 of the Listing Rules and as requested by the Stock Exchange, the proposed restated caps in respect of these inventory adjustment transactions as mentioned in this paragraph 4(B) would have to be aggregated with the proposed caps in respect of the inventory adjustment transactions as set out under paragraph 2(D) to this announcement. Such aggregation would result in each of the applicable percentage ratios (other than the profits ratio) for the inventory adjustment transactions being greater than 2.5%. Hence, these transactions constitute continuing connected transactions under Rule 14A.35 of the Listing Rules and are subject to reporting and announcement requirements and will require independent shareholders' approval and must comply with requirements set out in Rules 14A.45 to 14A.48 of the Listing Rules.

## **INDEPENDENT SHAREHOLDERS' APPROVAL**

Pursuant to the Listing Rules, the transactions contemplated under paragraphs 2(A), 2(C), 2(D), 2(E), 2(F), 3 and 4(B) above are subject to Independent Shareholders' approval by poll.

A circular containing, inter alia, details of the terms of each respective agreement, the restated caps in relation to the continuing connected transaction as mentioned in paragraph 4(B) to this announcement, the recommendation from the Independent Board Committee, the letter of advice from the independent financial adviser of the Independent Board Committee and the notice of the AGM will be despatched to the Shareholders no later than 21 days from this announcement. The Listing Rules also require that details of these transactions be disclosed in the Company next published annual report and accounts in accordance with the requirement of Listing Rule 14A.45. An Independent Board Committee, comprising independent non-executive directors Mr Wang Huaibao, Mr Zhang Julin and Mr Li Jianxin has been formed to advise independent shareholders of the above transactions subject to the independent shareholders' approval.

Watterson Asia Limited, an independent financial adviser, has been appointed to advise the Independent Board Committee in relation to the Mengniu Maanshan Intra-Group Transactions (in respect of those transactions whereby the applicable percentage ratios (other than the profits ratio) exceed 2.5% only), the Guarantee Agreements and the continuing connected transaction as mentioned in paragraph 4(B) to this announcement.

## **GENERAL**

The Group is a dairy product manufacturer in China and the principal product categories are liquid milk products, such as UHT milk, yogurt and milk beverages, ice cream and other dairy products such as milk powder and milk tablets.

## DEFINITIONS

The following defined terms used in this announcement shall have the following meanings:

- “AGM” means the annual general meeting of the Company to be held on Tuesday, 28 June 2005;
- “Board” means the board of the Directors;
- “Company” means China Mengniu Dairy Company Limited (HKex code 2319), a company incorporated with limited liability in the Cayman Islands on 16 February 2004, the shares of which are listed on the main board of the Stock Exchange;
- “Directors” means the directors of the Company;
- “Founding Individuals” means Niu Gensheng, Deng Jiuqiang, Hou Jiangbin, Sun Yubin, Qiu Lianjun, Yang Wenjun, Pang Kaitai, Lu Jun, Sun Xianhong and Xie Qiuxu, who are all PRC nationals. Niu Gensheng, Lu Jun, Sun Yubin and Yang Wenjun are Directors of the Company. The Founding Individuals have been acting as the controlling group of the Mengniu business since its inception in 1999 and as a result, they as a group are the controlling shareholders of the Company and they are connected persons of the Company;
- “Group” means the Company and its subsidiaries;
- “Guarantee Agreements” means the agreements entered into by Mengniu with each of Mengniu Luannan, Mengniu Tangshan, Mengniu Beijing, Mengniu Jiaozuo, Mengniu Taian, Mengniu Shenyang, Mengniu Shanxi and Mengniu Maanshan on 18 May 2005 to act as guarantor for future bank borrowings by each of the Mengniu Subsidiaries;
- “Hong Kong” means the Hong Kong Special administrative Region of the PRC;
- “Ice Cream Products Inventory Adjustment Agreement” means the agreement entered into among Mengniu, Mengniu Danyang, Mengniu Jiaozuo, Mengniu Jinhua, Mengniu Shenyang, Mengniu Taian, and Mengniu Maanshan on 18 May 2005 regarding the inventory adjustment of ice cream products;
- “Independent Board Committee” means the independent board committee, comprising Mr Wang Huaibao, Mr Zhang Julin and Mr Li Jianxin, all being independent non-executive directors to advise the independent shareholders;
- “Listing Rules” means The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time);
- “Mengniu” means Inner Mongolia Mengniu Milk Industry (Group) Co., Ltd., (內蒙古蒙牛乳業(集團)股份有限公司) a sino-foreign joint stock limited company incorporated in the PRC with limited liability and the principal operating subsidiary of the Group;



“Mengniu Baotou”	means 內蒙古蒙牛乳業包頭有限責任公司 (Inner Mongolia Mengniu Dairy Baotou Co., Ltd.), a company incorporated in the PRC as a limited liability company, an indirect non-wholly owned subsidiary of the Company;
“Mengniu Beijing”	means 蒙牛乳業(北京)有限責任公司 (Mengniu Dairy (Beijing) Co., Ltd.), a company incorporated in the PRC as a limited liability company, an indirect non-wholly owned subsidiary of the Company;
“Mengniu Dangyang”	means 蒙牛乳業(當陽)有限責任公司 (Mengniu Dairy (Dangyang) Co., Ltd.), a company incorporated in the PRC as a limited liability company, an indirect non-wholly owned subsidiary of the Company;
“Mengniu Dengkou”	means 蒙牛乳業(磴口巴彥高勒)有限責任公司 (Mengniu Dairy (Dengkou Bayan Gaole) Co., Ltd.), a company incorporated in the PRC as a limited liability company, an indirect non-wholly owned subsidiary of the Company;
“Mengniu Founding”	means 內蒙古蒙牛方鼎產業管理有限責任公司 (Inner Mongolia Mengniu Founding Industry Management Co., Ltd.), a company incorporated in the PRC as a limited liability company, an indirect non-wholly owned subsidiary of the Company;
“Mengniu Jiaozuo”	means 蒙牛乳業(焦作)有限公司 (Mengniu Dairy (Jiaozuo) Co., Ltd.), a company incorporated in the PRC as a limited liability company, an indirect non-wholly owned subsidiary of the Company;
“Mengniu Jinhua”	means 金華蒙牛乳業有限公司 (Jinhua Mengniu Dairy Co., Ltd.), a company incorporated in the PRC as a limited liability company, an indirect non-wholly owned subsidiary of the Company;
“Mengniu Keerqin”	means 內蒙古蒙牛乳業科爾沁有限責任公司 (Inner Mongolia Mengniu Dairy Keerqin Co., Ltd.), a company incorporated in the PRC as a limited liability company, an indirect non-wholly owned subsidiary of the Company;
“Mengniu Luannan”	means 蒙牛乳業(瀾南)有限責任公司 (Mengniu Dairy (Luannan) Co., Ltd.), a company incorporated in the PRC as a limited liability company, an indirect non-wholly owned subsidiary of the Company;
“Mengniu Maanshan”	means 蒙牛乳業(馬鞍山)有限公司 (Mengniu Dairy Maanshan Co., Ltd.), a company incorporated in the PRC as a limited liability company, an indirect non-wholly owned subsidiary of the Company;
“Mengniu Maanshan Intra-Group Transactions”	means the transactions contemplated under the UHT Milk and Milk Beverage Products Centralised Sales Agreement, UHT Milk and Milk Beverage Products Inventory Adjustment Agreement, Yogurt Products Centralised Sales Agreement, Yogurt Products Inventory Adjustment Agreement, Ice Cream Products Inventory Adjustment Agreement and the inventory adjustment agreement for the transfer of raw materials and packaging materials;

“Mengniu Maanshan JV Agreement”	means the joint venture agreement entered into between Mengniu Founding and Mengniu governing the affairs of Mengniu Maanshan;
“Mengniu Shanxi”	means 內蒙古蒙牛乳業(集團)山西乳業有限公司 (Inner Mongolia Mengniu Dairy (Group) Shanxi Dairy Co., Ltd.), a company incorporated in the PRC as a limited liability company, an indirect non-wholly owned subsidiary of the Company;
“Mengniu Shenyang”	means 蒙牛乳業(瀋陽)有限責任公司 (Mengniu Dairy (Shenyang) Co., Ltd.), a company incorporated in the PRC as a limited liability company, an indirect non-wholly owned subsidiary of the Company;
“Mengniu Subsidiaries”	means the subsidiaries of Mengniu;
“Mengniu Taian”	means 蒙牛乳業泰安有限責任公司 (Mengniu Dairy Taian Co., Ltd.), a company incorporated in the PRC as a limited liability company, an indirect non-wholly owned subsidiary of the Company;
“Mengniu Tangshan”	means 蒙牛乳業(唐山)有限責任公司 (Mengniu Dairy (Tangshan) Co., Ltd.), a company incorporated in the PRC as a limited liability company, an indirect non-wholly owned subsidiary of the Company;
“Mengniu Wulanhaote”	means 蒙牛乳業(烏蘭浩特)有限責任公司 (Mengniu Dairy (Wulanhaote) Co., Ltd.), a company incorporated in the PRC as a limited liability company, an indirect non-wholly owned subsidiary of the Company;
“PRC”	means the People’s Republic of China excluding, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan;
“Prospectus”	means the prospectus issued by the Company on 1 June 2004;
“RMB”	means Renminbi, the lawful currency of the PRC;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“UHT Milk and Milk Beverage Products Centralised Sales Agreement”	means the agreement entered into among Mengniu and Mengniu Maanshan on 18 May 2005 regarding the centralised sales arrangement of the UHT Milk and Milk Beverage Products;
“UHT Milk and Milk Beverage Products Inventory Adjustment Agreement”	means the agreement entered into among Mengniu, Mengniu Baotou, Mengniu Beijing, Mengniu Dengkou, Mengniu Jiaozuo, Mengniu Keerqin, Mengniu Luannan, Mengniu Shanxi, Mengniu Shenyang, Mengniu Tangshan, Mengniu Taian, Mengniu Wulanhaote and Mengniu Maanshan on 18 May 2005 regarding the inventory adjustment of UHT Milk and Milk Beverage Products;
“Yogurt Products Centralised Sales Agreement”	means the agreement entered into between Mengniu Maanshan and Mengniu Beijing on 18 May 2005 regarding the centralised sales arrangement of the Yogurt Products; and

“Yogurt Products Inventory Adjustment Agreement” means the agreement entered into among Mengniu, Mengniu Baotou, Mengniu Beijing, Mengniu Dengkou, Mengniu Jiaozuo, Mengniu Keerqin, Mengniu Luannan, Mengniu Shanxi, Mengniu Shenyang, Mengniu Tangshan, Mengniu Taian, Mengniu Wulanhaote and Mengniu Maanshan on 18 May 2005 regarding the inventory adjustment of Yogurt Products;

“%” means per cent.

By order of the Board  
**Lo Ka Wai, Claudia**  
Company Secretary

Hong Kong, 18 May 2005

*As at the date of this announcement, the Executive Directors are Mr Niu Gensheng, Ms Lu Jun, Mr Sun Yubin and Mr Yang Wenjun. The Non-executive Directors are Mr Jiao Shuge (alias Jiao Zhen), Mr Liu Haifeng, David and Ms Jin Yujuan, Lily. The Independent non-executive Directors are Mr Wang Huaibao, Mr Zhang Julin and Mr Li Jianxin.*

*Please also refer to the published version of this announcement in the (**International Herald Tribune**)*