

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Mengniu Dairy Company Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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CHINA MENGNIU DAIRY COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

GENERAL MANDATES TO REPURCHASE SHARES AND ISSUE NEW SHARES, RE-ELECTION OF DIRECTORS, ADOPTION OF THE SHARE OPTION SCHEME, AMENDMENT OF THE ARTICLES OF ASSOCIATION AND NOTICE OF ANNUAL GENERAL MEETING

A notice convening the annual general meeting of China Mengniu Dairy Company Limited (the “**Company**”) to be held at Hennessy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 28 June 2005 at 10:30 a.m. (the “**Annual General Meeting**”) is set out on pages 17 to 21 of this circular.

Whether or not you are able to attend the Annual General Meeting, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company’s Share Registrars, Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the Annual General Meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting at the Annual General Meeting should you so wish.

LETTER FROM THE BOARD



CHINA MENGNIU DAIRY COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

Directors:

Mr Niu Gensheng
(Chief Executive Officer)
Ms Lu Jun
Mr Sun Yubin
Mr Yang Wenjun
Mr Jiao Shuge[#] (alias Jiao Zhen) (Chairman)
Mr Liu Haifeng, David[#]
Ms Jin Yujuan, Lily[#]
Mr Wang Huaibao*
Mr Zhang Julin*
Mr Li Jianxin*

Registered Office:

M&C Corporate Service
PO Box 309 GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

Company Secretary:

Lo Ka Wai, Claudia

[#] Non-executive Director

* Independent Non-executive Director

27 May 2005

To the shareholders

Dear Sir or Madam,

**GENERAL MANDATES TO REPURCHASE SHARES AND
ISSUE NEW SHARES, RE-ELECTION OF DIRECTORS,
ADOPTION OF SHARE OPTION SCHEME,
AMENDMENT OF THE ARTICLES OF ASSOCIATION
AND
NOTICE OF ANNUAL GENERAL MEETING**

INTRODUCTION

The purpose of this circular is to provide you with information regarding, inter alia:

- (a) grant of the Share Issue Mandate to issue Shares;
- (b) grant of the Repurchase Mandate for repurchase by the Company of its own Shares;
- (c) grant of general extension mandate to extend the Share Issue Mandate to include Shares repurchased under the Repurchase Mandate;

LETTER FROM THE BOARD

- (d) re-election of Directors;
- (e) adoption of the Share Option Scheme; and
- (f) amendment of the Articles of Association.

1. General mandate to issue shares

At the Annual General Meeting, an ordinary resolution will be proposed for the shareholders to consider and, if thought fit, grant a general mandate to the Directors to exercise the power of the Company to allot, issue and deal with the shares of the Company (the “**Shares**”) (the “**Share Issue Mandate**”). The Shares which may be allotted and issued pursuant to the Share Issue Mandate is up to 20% of the issued share capital of the Company on the date of passing the resolution approving the Share Issue Mandate.

Details of the Share Issue Mandate are respectively set out in Resolutions 6 and 7 in the Notice of the Annual General Meeting set out on pages 17 to 21 of this circular. The Share Issue Mandate will expire upon whichever is the earliest of: (a) the conclusion of the next annual general meeting of the Company; (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or by the laws of the Cayman Islands to be held; and (c) the date on which the authority given under the ordinary resolution approving the Share Issue Mandate is revoked or varied by an ordinary resolution of the shareholders.

2. General mandate to repurchase shares

At the Annual General Meeting, an ordinary resolution will be proposed for the shareholders to consider and, if thought fit, grant a general mandate to the Directors to exercise the power of the Company to repurchase Shares (the “**Share Repurchase Mandate**”). The Shares which may be repurchased pursuant to the Share Repurchase Mandate are up to 10% of the issued share capital of the Company on the date of passing the resolution approving the Share Repurchase Mandate.

As at 27 May 2005, the latest practicable date prior to the printing of this circular (the “**Latest Practicable Date**”), the issued share capital of the Company comprised 1,110,524,941 Shares. Assuming that there is no change in the issued share capital between the period from the Latest Practicable Date and the date of passing the resolution approving the Share Repurchase Mandate, the maximum number of Shares which may be repurchased pursuant to the Share Repurchase Mandate on the date of passing the resolution approving the Share Repurchase Mandate will be 111,052,494 Shares.

An explanatory statement as required under the Share Repurchase Rules, giving certain information regarding the Share Repurchase Mandate together with the details of the repurchases of Shares made by the Company during the six months preceding the Latest Practicable Date, are set out in Appendix I to this circular. The Share Repurchase Mandate will expire upon whichever is the earliest of: (a) the conclusion of the next annual general meeting of the Company; (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles or by the laws of Hong Kong to be held; and (c) the date on which the authority given under the ordinary resolution approving the Share Repurchase Mandate is revoked or varied by an ordinary resolution of the shareholders.

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3. General Extension Mandate

In addition, if the Share Repurchase Mandate and the Share Issue Mandate to issue shares are granted, an ordinary resolution will be proposed at the Annual General Meeting that the Directors be granted an extension of Share Issue Mandate, which provides that any Shares repurchased under the Share Repurchase Mandate will be added to the total number of Shares which may be allotted and issued under the Share Issue Mandate.

4. Share Option Scheme

The directors of the Company (the “**Directors**”) propose to adopt a share option scheme of the Company (the “**Share Option Scheme**”) relating to the grant of options to directors, employees, suppliers or customers of the Company and its subsidiaries (the “**Group**”) to subscribe for shares of the Company.

A summary of the rules of the Share Option Scheme is set out in the Appendix II to this circular.

The Company previously did not have a share option scheme and the Directors believe that they would like to incentivise the board and the employees by the implementation of a share option scheme. Under the Share Option Scheme, the Directors may grant options without any initial payment to any director or employee of the Group. The Share Option Scheme will enable the Group to offer valuable incentive to attract and retain quality personnel to work to increase the value of the shares of the Company (“**Shares**”). To this end, the Directors may specify at the time of the grant, the minimum period, if any, for which an option must be held or the performance targets, if any, that must be achieved before the option can be exercised.

The Share Option Scheme is conditional upon:

- (a) the approval of the shareholders of the Company at a general meeting to be held; and
- (b) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting listing of and permission to deal in the new shares of the Company which may be issued and allotted pursuant to the exercise of options granted under the Share Option Scheme up to 10% of the share capital of the Company in issue on the date of shareholders’ approval of the Share Option Scheme.

Application will be made to the Listing Committee of the Stock Exchange for the granting of the listing of and permission to deal in the new shares of the Company which may be issued and allotted pursuant to the Share Option Scheme.

The Shares are only listed on the Stock Exchange and not on any other stock exchange.

5. Re-election of the Directors

Pursuant to Article 112 of the Articles, one-third of the Directors shall retire from office by rotation. Niu Gensheng, Sun Yubin and Li Jianxin will retire from office as Directors by rotation at the Annual General Meeting and being eligible, offer themselves for re-election. Particulars of Directors proposed to be re-elected at the Annual General Meeting is set out in Appendix III of this Circular.

LETTER FROM THE BOARD

6. Amendment of the Articles of Association

The Directors propose to form a nomination committee (the “**Nomination Committee**”) the function of which is to make recommendations for suitable candidates to be appointed to the board of Directors. Further changes shall be made to allow the Chairman of a board meeting to have a casting vote and for the constitution of the board to be a maximum of 10 members. Accordingly, the Articles as set out in the Notice of the Annual General Meeting of the Articles of Association shall be amended.

Details of the above amendments to the Articles of Association are set out in Resolution 9 of the Notice of Annual General Meeting.

A copy of the Articles of Association is available for inspection during the normal business hours at the head office and principal place of business of the Company at Unit 1001, 10th Floor, Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong from the date of this Circular up to and including the date of the Annual General Meeting and at the Annual General Meeting.

7. Annual General Meeting

A notice convening the Annual General Meeting to be held at Hennessy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 28 June 2005 at 10:30 a.m. is set out on pages 17 to 21 of this Circular. At the Annual General Meeting, resolutions will be proposed to approve, inter alia, the adoption of the Share Option Scheme, the Share Issue Mandate, the Share Repurchase Mandate, the proposed amendments to the Articles of Association and the re-election of Directors.

The procedure by which shareholders of the Company may demand a poll at any general meeting of the Company is set out in Appendix IV to this circular.

A proxy form for use at the Annual General Meeting is enclosed. Whether or not you are able to attend the Annual General Meeting, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return the same to the Company’s Share Registrars, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting. Completion and return of the proxy form will not prevent shareholders from attending and voting at the Annual General Meeting if they so wish.

8. Recommendation

The Directors believe that the grant of the Share Issue Mandate and Share Repurchase Mandate, the re-election of Directors, the adoption of the Share Option Scheme and the amendments to the Articles of Association be proposed at the Annual General Meeting are in the best interests of the Company and the shareholders. Accordingly, the Board recommends the shareholders to vote in favour of the resolutions in relation to the above proposals to be proposed at the Annual General Meeting.

LETTER FROM THE BOARD

9. Responsibility Statement

This Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other matters the omission of which would make any statement in this circular misleading.

As at the date hereof, the Board comprises Niu Gensheng, Lu Jun, Sun Yubin and Yang Wenjun as Executive Directors, Jiao Shuge (alias Jiao Zhen), Liu Haifeng, David and Jin Yujuan, Lily as Non-Executive Directors, Wang Huaibao, Zhang Julin and Li Jianxin as Independent Non-Executive Directors.

Yours faithfully,
Niu Gensheng
Chief Executive Officer

(a) LISTING RULES

The Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) permit companies with a primary listing on the Stock Exchange to repurchase their fully-paid up shares on the Stock Exchange subject to certain restrictions.

(b) SHAREHOLDERS’ APPROVAL

The Listing Rules provide that all on-market share repurchases by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by specific approval of a particular transaction or by a general mandate to the directors of the company to make such repurchases.

(c) Exercise of the Share Repurchase Mandate

As at the Latest Practicable Date, there were 1,110,524,941 Shares in issue. Subject to the passing of the ordinary resolution approving the Share Repurchase Mandate and on the basis that no further Shares are issued or no Shares are repurchased prior to the Annual General Meeting, the Company would be allowed under the Share Repurchase Mandate to repurchase a maximum of 111,052,494 Shares, representing 10 per cent. of the issued share capital of the Company as at the date of passing of such resolution.

(d) REASONS FOR THE REPURCHASE OF SHARES

The Directors believe that the Share Repurchase Mandate is in the best interest of the Company and the shareholders. Repurchases may, depending on the circumstances, result in an increase in net assets and/or earnings per share. The Directors are seeking the grant of a general mandate to repurchase Shares to give the Company flexibility to do so if and when appropriate. The timing and the number(s), the price and other terms upon which the same are repurchased will be decided by the Directors at the relevant time having regard to the circumstances then prevailing.

(e) SOURCE OF FUNDS

The Company is empowered by its Memorandum and Articles of Association to purchase its Shares. In accordance with Cayman Islands law and the Company’s Memorandum and Articles of Association, shares may only be redeemed or purchased out of the profits of the Company or out of the proceeds of a fresh issue of shares made for the purposes of the redemption or purchase. The premium, if any, payable on purchase must be provided for out of the profits of the Company or out of the Company’s share premium account before or at the time the shares are purchased or, subject to the statutory test of solvency, out of capital. Under Cayman Islands law, the Shares so repurchased will be treated as cancelled but the aggregate amount of authorised share capital will not be reduced.

It is possible that, if the Share Repurchase Mandate were to be carried out in full at any time during the proposed repurchase period, there might be a material adverse impact on the working capital or gearing position of the Company as compared with the position disclosed in the audited accounts contained in the annual report of the Company for the year ended 31 December 2004. However, the Directors do not propose to exercise the Share Repurchase Mandate to the extent that the repurchase would, in the circumstances, have a material adverse effect on the working capital position of the Company or its gearing levels which, in the opinion of the Directors, are from time to time appropriate for the Company.

(f) SHARE PRICES

The monthly highest and lowest prices at which the Shares had traded on the Stock Exchange since the date of listing were as follows:

| | Share Prices (per Share) | |
|---|--------------------------|-----------------------|
| | Highest <i>HK\$</i> | Lowest <i>HK\$</i> |
| 2004 | | |
| June | 5.20 | 3.925 |
| July | 5.45 | 4.70 |
| August | 5.15 | 4.85 |
| September | 6.15 | 5.10 |
| October | 7.00 | 6.05 |
| November | 6.75 | 6.00 |
| December | 6.35 | 5.95 |
| 2005 | | |
| January | 6.10 | 5.55 |
| February | 5.95 | 5.70 |
| March | 5.75 | 5.30 |
| April | 5.70 | 5.00 |
| May (up to and including the Latest Practicable Date) | 5.25 | 4.80 |

(g) UNDERTAKING

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Share Repurchase Mandate in accordance with the Share Repurchase Rules and the applicable laws of Hong Kong.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates, currently intends to sell Shares to the Company or its subsidiaries in the event that the Share Repurchase Mandate is approved by the shareholders.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell the Shares to the Company, or has undertaken not to do so in the event that the Company is authorised to make repurchases of Shares.

(h) THE TAKEOVER CODE

If, as a result of a repurchase of Shares by the Company, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeover Code. Accordingly, a shareholder, or group of shareholders acting in concert, could, depending on the level of increase of shareholding interest, obtain or consolidate control of the Company or become obliged to make a mandatory offer in accordance with Rules 26 and 32 of the Takeover Code. The Directors are not aware of any shareholder or group of shareholders acting in concert who will become obliged to make a mandatory offer as a result of a repurchase of Shares.

As at the Latest Practicable Date, the register of interests in shares and short positions maintained by the Company pursuant to section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”) show that shareholders holding 5% or more of the Company’s issued share capital include:

| Name | Number of Shares Interests | Percentage of Existing Shareholding | Percentage of Shareholding if the Repurchase Mandate is exercised in full |
|--|---|---|---|
| Morgan Stanley Global Emerging Markets Inc | 371,664,288 ^(L) 87,295,726 ^(S) | 33.47 ^(L) 7.86 ^(S) | 35.23 8.27 |
| Niu Gensheng | 381,442,563 ^(L) | 34.35 ^(L) | 36.16 |
| Xie Qiuxu | 335,937,391 ^(L) | 30.25 ^(L) | 31.84 |
| Yinniu Milk Industry Limited (“Yinniu”) (Note) | 335,937,391 ^(L) | 30.25 ^(L) | 31.84 |
| Jinniu Milk Industry Limited (“Jinniu”) (Note) | 220,952,775 ^(L) | 19.90 ^(L) | 20.94 |
| Morgan Stanley | 133,658,361 ^(L) 4,696,000 ^(S) | 12.04 ^(L) 0.42 ^(S) | 12.67 0.45 |
| Morgan Stanley Global Emerging Markets Private Investment Fund, L.P. | 130,321,990 ^(L) | 11.74 ^(L) | 12.35 |
| MS Dairy Holdings | 130,321,990 ^(L) | 11.74 ^(L) | 12.35 |
| MSGEM, LLC | 130,321,990 ^(L) | 11.74 ^(L) | 12.35 |
| CDH China Fund, L.P. | 106,813,544 ^(L) 16,581,508 ^(S) | 9.62 ^(L) 1.49 ^(S) | 10.12 1.57 |
| CDH China Holdings Company Limited | 106,813,544 ^(L) 16,581,508 ^(S) | 9.62 ^(L) 1.49 ^(S) | 10.12 1.57 |
| Morgan Stanley Capital Management, LLC | 54,847,000 ^(L) 52,500,000 ^(S) | 4.94 ^(L) 4.73 ^(S) | 5.20 4.98 |
| Morgan Stanley International Incorporated | 54,847,000 ^(L) 52,500,000 ^(S) | 4.94 ^(L) 4.73 ^(S) | 5.20 4.98 |
| Morgan Stanley Domestic Capital Inc. | 54,847,000 ^(L) 52,500,000 ^(S) | 4.94 ^(L) 4.73 ^(S) | 5.20 4.98 |
| Morgan Stanley & Co International Limited | 52,865,000 ^(L) 52,500,000 ^(S) | 4.94 ^(L) 4.73 ^(S) | 5.20 4.98 |
| Morgan Stanley Group (Europe) | 52,865,000 ^(L) 52,500,000 ^(S) | 4.94 ^(L) 4.73 ^(S) | 5.20 4.98 |
| Morgan Stanley International Limited | 52,865,000 ^(L) 52,500,000 ^(S) | 4.94 ^(L) 4.73 ^(S) | 5.20 4.98 |
| Morgan Stanley UK Group | 52,865,000 ^(L) | 4.94 ^(L) | 5.20 |

Note:

- (1) 10 founding individuals, namely Niu Gensheng, Deng Jiuqiang, Hou Jiangbin, Sun Yunbin, Qiu Lianjun, Yang Wenjun, Pang Kaitai, Lu Jun, Sun Xianhong and Xie Qiuxu, have been acting as a controlling group over the business since its inception in 1999. Therefore, they as a group are controlling shareholders of the Company. As

at 31 December 2004, Niu Gensheng, Deng Jiuqiang, Lu Jun, Sun Yubin, Yang Wenjun, Sun Xianhong and Qiu Lianjun who are shareholders of Jinniu together control approximately 87.4% of Jinniu. Xie Qiuxu, Pang Kaitai, Hou Jiangbin and Deng Jiuqiang who are shareholders of Yinniu together control approximately 70.8% of Yinniu. Jinniu and Yinniu in aggregate control approximately 50.15% and 52.78% of the voting power at the general meeting of the Company before and after the exercise of the repurchase mandate (if exercised in full) respectively.

(L) Indicates a long position.

(S) Indicates a short position.

(i) SHARES PURCHASED BY THE COMPANY

The Company did not repurchase any Shares in the six months prior to the Latest Practicable Date (whether on the Stock Exchange or otherwise)

(a) PURPOSE OF THE SCHEME

The purpose of this Share Option Scheme is to provide an incentive for the quality personnel to work with commitment towards enhancing the value of the Company and its Shares for the benefit of its shareholders, and to maintain or attract business relationship with the quality personnel whose contributions are or may be beneficial to the growth of the Group.

(b) WHO MAY JOIN

The Directors may at their discretion grant options to

- (i) any director or employee of the Group; or
- (ii) any supplier of goods or services to the Group; or
- (iii) any customer of the Group or any entity in which the Group holds any equity interest (“**Invested Entity**”) (a “**Qualifying Grantee**”); or
- (iv) any person or entity that provides research, development or technical support to the Group or any Invested Entity.

(c) PRICE OF SHARES

Options may be granted without any initial payment for the options at an exercise price (subject to adjustments as provided in the Share Option Scheme) equal to the highest of (i) the nominal value of the Shares; (ii) the closing price per Share as stated in the Stock Exchange’s daily quotations sheet on the date of the grant of the option ; and (iii) the average closing price per Share as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of the grant of the option.

(d) MAXIMUM NUMBER OF SHARES

The maximum number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) of the Company shall not exceed 10 per cent. of the share capital of the Company in issue at the date of shareholders’ approval of the Share Option Scheme (the “**General Mandate Limit**”) provided that:

- (a) the Company may seek approval by shareholders in general meeting to refresh the General Mandate Limit up to 10 per cent. of the issued share capital of the Company at the date of the shareholders’ approval to refresh the limit; and
- (b) the Company may seek separate shareholders’ approval in general meeting to grant options beyond the General Mandate Limit provided that the options in excess of the General Mandate Limit are granted only to participants specifically identified by the Company before such approval is sought,

subject to the limitation that the maximum number of Shares which may be issued or issuable upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company shall not exceed 30 per cent. of the issued share capital of the Company from time to time.

On the Latest Practicable Date, there were in issue of 1,110,524,941 Shares. If no further Shares are issued prior to the date of adoption of the Share Option Scheme, options to subscribe for a total of 111,052,494 Shares may be issued under the Share Option Scheme pursuant to the General Mandate Limit.

The maximum number of Shares (issued and to be issued) in respect of which options may be granted under the Share Option Scheme to any one grantee in any 12-month period shall not exceed 1 per cent. of the share capital of the Company in issue unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules. The Company will issue a circular to its shareholders which contain all the information as required under the Listing Rules.

(e) GRANT OF OPTIONS TO CONNECTED PERSONS

Any grant of options to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by all the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).

Where options are proposed to be granted to a substantial shareholder of the Company or an independent non-executive Director or any of their respective associates, and the proposed grant of options would result in the Shares issued and to be issued upon exercise of all options already granted (including options exercised, cancelled and outstanding) and to be granted to such person in the 12 month period up to and including the date of the grant of such options to represent in aggregate over 0.1 per cent. of the total issued Shares for the time being and have an aggregate value (based on the closing price of a Share at each date of the grant of these options) exceeding HK\$5,000,000, the proposed grant shall be subject to the approval of shareholders of the Company in general meeting in accordance with the requirements of the Listing Rules. The Company will issue a circular to its shareholders and all connected persons (as defined under the Listing Rules). All connected persons will abstain from voting in favour at such Annual General Meeting.

(f) TIME OF EXERCISE OF OPTION

The holder of an option may subscribe for Shares during such period as may be determined by the Directors (which shall not be more than ten years from the date of grant of the relevant option and may include the minimum period, if any, for which an option must be held before it can be exercised).

(g) RIGHTS ARE PERSONAL TO GRANTEE

An option may not be transferred or assigned and will be personal to the holder of the option.

(h) RIGHTS ON CEASING EMPLOYMENT

If a holder of an option retires in accordance with the terms of his employment, the holder may exercise the option within a period of twelve months or such longer period as the Board may determine.

(i) RIGHTS ON DEATH

If a holder of an option dies, the personal representatives of the holder may exercise the option within a period of twelve months thereafter or at the expiration of the relevant option period, whichever is earlier, failing which the option will lapse.

(j) RIGHTS ON DISMISSAL

If the holder of an option resigns or is dismissed from the employment of the Group, the holder may exercise the option within a period of one month thereafter, failing which the option will lapse.

(k) EFFECT OF ALTERATIONS TO CAPITAL

In the event of any reduction, sub-division or consolidation of the share capital of the Company or capitalisation issue, rights issue, consolidation, subdivision or reduction of share capital, the number or nominal amount of Shares comprised in each option (so far as such option remains unexercised) and/or the option price shall be adjusted with corresponding alterations by the Board (having received a statement in writing from the auditors of the Company that in their opinion the adjustments proposed satisfy the requirements set out in the note to Rule 17.03(13) of the Listing Rules), provided always that an option holder shall have the same proportion of the equity capital of the Company as that to which he was entitled before such adjustments but no such adjustments may be made to the extent that a share would be issued at less than its nominal value.

(l) RIGHTS ON A GENERAL OFFER

If a general offer is made to the holders of Shares and the offer becomes or is declared unconditional during the Option period, each holder of an option shall be entitled to exercise any option to the extent that it has not been so exercised but whether vested or not, any option at any time before the expiry of the period of ten business days following the date on which the offer becomes or is declared unconditional.

(m) RIGHTS ON WINDING UP

If notice is duly given of a general meeting at which a resolution will be proposed for the voluntary winding-up of the Company or an order of court is made for the winding-up of the Company, every option outstanding to a holder (to the extent not already exercised but whether vested or not) by notice in writing to the Company within 15 business days after date of such resolution, elect to be treated as if the option had been exercised immediately before the passing of the resolution.

(n) RIGHTS ON A COMPROMISE OR ARRANGEMENT

If a compromise or arrangement between the Company and its members or creditors is proposed, each holder of an option may exercise his option (to the extent not already exercised but whether vested or not) forthwith until the expiry of two calendar months thereafter or the date on which such compromise or arrangement is sanctioned by the Court, whichever is earlier, subject to such compromise or arrangement being sanctioned by the Court and becoming effective.

(o) RANKING OF SHARES

Shares allotted on the exercise of options will rank *pari passu* with the other Shares in issue on exercise of the relevant option except in respect of any dividend or other distribution previously resolved or announced to be paid before the date of allotment.

(p) PERIOD OF THE SCHEME

The Share Option Scheme will remain in force for a period of 10 years from the date of adoption of the Share Option Scheme.

(q) VARIATION

Except as allowed by the Listing Rules in effect from time to time or with the prior approval of shareholders in general meeting, no alteration shall be made to the provisions of the Share Option Scheme relating to any of the above matters or of the terms or conditions of the Share Option Scheme which are of a material nature or change the terms of options granted under the Share Option Scheme, except where the alteration takes effect automatically under the existing terms of the Share Option Scheme. The Directors may terminate the Share Option Scheme at any time, but options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the rules of such scheme.

(r) CANCELLATION OF UNEXERCISED OPTION

The Company may cancel an option granted under the Share Option Scheme but not exercised with the approval of the holder of such option. If the Company cancels options and issues new ones to the same option holder, the issue of such new options may only be made under the Share Option Scheme with available unissued options (excluding the cancelled options) within the limit approved by shareholders as mentioned in the paragraph headed “Maximum number of Shares” above.

(s) LAPSE OF OPTION

An Option shall lapse automatically (to the extent not already exercised) on the earliest of (i) expiry of the option period; (ii) the expiry of any of the periods referred to in paragraphs (h), (i), (k), (m), (n), or as the case maybe, the time from which the option holder ceases to be a Qualifying Grantee pursuant to paragraph (j); (iii) the date on which the holder commits a breach of paragraph (g); (iv) where an option was granted subject to certain conditions, restrictions or limitations, the date on which the Board resolves that the holder has failed to satisfy or comply with such conditions, restrictions or limitations; (v) in respect of a holder being a consultant or adviser, the date on which the Board resolves that the consultant or adviser fails to comply with any provisions of the relevant contracts, or breaches its fiduciary duty under the common law; and (vi) the occurrence of such event or expiry of such period as may have been specifically provided for in the offer letter, if any.

(t) TERMINATION

On termination of the Share Option Scheme by resolution of the Board before the period of the Share Option Scheme and in such event no further options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects. In particular, all options granted and accepted prior to the termination and yet to be exercised shall continue to be valid and exercisable in accordance with the terms of the Share Option Scheme.

Set out below are details of the Directors who will retire at the conclusion of the Annual General Meeting and will be proposed to be re-elected at the Annual General Meeting.

NIU GENSHENG

Mr Niu Gensheng, aged 47, is the Chief Executive Officer and one of the Founding Individuals who founded Inner Mongolia Mengniu Milk Industry (Group) Co., Ltd. (“**Mengniu**”) in 1999. Mr Niu graduated from Inner Mongolia University with a degree in administration and management and completed coursework for a Master Degree in enterprise administration at the Chinese Academy of Social Sciences Graduate School. Mr Niu gained the relevant management expertise and experience by previously serving as a director on the board of directors of Inner Mongolia Yili Industrial Group Co., Ltd. (“**Yili**”) and deputy chief executive in charge of production and operations at the same company. He has in-depth knowledge of the PRC dairy industry and over 27 years of experience in the PRC dairy industry.

Pursuant to the service contract entered into between the Company and Mr Niu on 18 May 2004, Mr Niu was appointed as an executive director of the Company for an initial term of one year and shall continue thereafter to a maximum of three years. The said service contract is terminable by either party by giving three months notice. Mr Niu is entitled to receive emoluments of RMB6,000 per annum, together with an annual fixed sum bonus equal to one month of his average monthly salary and a discretionary bonus. Pursuant to the service contract, his salary will be reviewed by the remuneration committee of the Company.

Mr Niu is not related to any Directors, senior management, substantial shareholders and Mr Niu is a controlling shareholder of the Company who acts in concert with Jinniu Milk Industry Limited and Yinniu Milk Industry Limited, both being substantial shareholders of the Company.

As at the Latest Practicable Date, Mr Niu is the beneficial owner of 45,505,172 shares of the Company pursuant to Part XV of the SFO.

SUN YUBIN

Mr Sun Yubin, aged 39, is an executive Director of the Company, Vice President, General Manager of the ice cream division and one of the Founding Individuals who founded Mengniu in 1999. Mr Sun graduated from Inner Mongolia University with a degree in economic management. Prior to joining the Company, Mr Sun gained the relevant management experience as general manager at Yili’s Frozen Foods Company. He has over 22 years of experience in the PRC dairy industry.

Pursuant to the service contract entered into between the Company and Mr Sun on 18 May 2004, Mr Sun was appointed as an executive director of the Company for an initial term of one year and shall continue thereafter to a maximum of three years. The said service contract is terminable by either party by giving three months notice. Mr Sun is entitled to receive emoluments of RMB6,000 per annum, together with an annual fixed sum bonus equal to one month of his average monthly salary and a discretionary bonus. Pursuant to the service contract, his salary will be reviewed by the remuneration committee of the Company.

Mr Sun is not related to any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

Mr Sun does not have any interest in shares of the Company within the meaning of Part XV of the SFO.

LI JIANXIN

Mr Li Jianxin, aged 41, is a senior economist. He has served as commission deputy secretary, secretary, deputy general director and deputy director of the policy research office for China Lucky Film Corporation. He currently serves on the board of directors for Lucky Film Co., Ltd., a company listed on the Shanghai Stock Exchange which engages in the manufacturing and sale of colour film and colour photo paper, and is the secretary of its board of directors. He also serves as manager of the securities department.

Pursuant to the letter of appointment entered into between the Company and Mr Li on 18 May 2004, Mr Li was appointed as an independent non-executive Director of the Company for an initial term of one year and shall continue thereafter to a maximum of three years. Mr Li is entitled to receive emoluments of RMB12,000 per annum.

Mr Li is not related to any Directors, senior management, substantial shareholders or controlling shareholders of the Company.

Mr Li does not have any interest in shares of the Company within the meaning of Part XV of the SFO.

There are no other matters which need to be brought to the attention of the shareholders of the Company.

Article 76 of the Articles of Association of the Company sets out the procedure by which shareholders may demand a poll:

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the Chairman of the Meeting; or
- (ii) by at least five members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

NOTICE OF ANNUAL GENERAL MEETING



CHINA MENGNIU DAIRY COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

NOTICE IS HEREBY GIVEN that the first Annual General Meeting of the shareholders of China Mengniu Dairy Company Limited (the “**Company**”) will be held at Hennessy Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 28 June 2005 at 10:30 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the report of directors and auditors for the year ended 31 December 2004.
2. To declare the final dividend.
3. To re-elect directors and authorise the board of directors of the Company to fix their remuneration.
4. To re-appoint auditors and authorise the board of directors of the Company to fix their remuneration.

As special business, to consider and, if thought fit, to pass the following ordinary resolutions:

ORDINARY RESOLUTIONS

5. “**THAT:**
 - (a) the exercise by the directors of the Company (the “**Directors**”) during the Relevant Period of all the powers of the Company to repurchase shares of the Company be and is hereby generally and unconditionally approved;
 - (b) the aggregate nominal amount of the shares which may be repurchased on The Stock Exchange of Hong Kong Limited or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph (a) above shall not exceed ten per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution.
 - (c) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

 - (i) the conclusion of the next annual general meeting of the Company; or

NOTICE OF ANNUAL GENERAL MEETING

- (ii) the expiration of the period within which the next annual general meeting of the Company is required by its articles of association or by the laws of the Cayman Islands to be held; or
- (iii) the revocation or variation of the authority given to the Directors under this Resolution by the passing of an ordinary resolution by the shareholders in general meeting.”

6. **“THAT:**

- (a) subject to paragraph (c) of this Resolution, the exercise by the Directors during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements, options and warrants which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements, options and warrants which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph (a), otherwise than pursuant to, (i) a Rights Issue, (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company, shall not exceed the aggregate of:
 - (aa) twenty per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution plus;
 - (bb) (if the Directors are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to ten per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution), and the said approval shall be limited accordingly.
- (d) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by its articles of association or by the laws of Hong Kong to be held; or

NOTICE OF ANNUAL GENERAL MEETING

- (iii) the revocation or variation of the authority given to the Directors under this Resolution by the passing of an ordinary resolution by the shareholders in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong).”

7. **“THAT** the general mandate referred to in Resolution 6 above be and is hereby extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed to be allotted by the Directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of shares repurchased by the Company pursuant to the general mandate referred to in Resolution 5 above provided that such amount shall not exceed 10 per cent. of the existing issued share capital of the Company at the date of passing this Resolution.”
8. **“THAT** the rules of the share option scheme of the Company (a copy of which has been submitted to the meeting and signed by the Chairman of the meeting for the purpose of identification) be and are hereby approved and that the directors of the Company be and are hereby authorised to implement the same and to grant options and to issue and allot shares of the Company pursuant thereto.”
9. **“THAT** the Mengniu Maanshan Intra-Group Transactions, the Guarantee Agreements and the proposed restated caps for the year 2005 and 2006 in relation to a continuing connected transaction for the transfer of yogurt products amongst Mengniu, Mengniu Beijing and certain Mengniu Subsidiaries for inventory adjustment purposes as disclosed under category 16 on page 116 in the Prospectus and as described in the paragraph headed “The Transactions” under the section “Letter from the Board” of the circular in relation to continuing connected transactions and financial assistance dated 27 May 2005, the transactions contemplated therein and their respective proposed caps and restated caps, be and are hereby approved, ratified and confirmed and any Director is hereby authorised to do all such further acts and things and execute such further documents and take all such steps which is in his opinion may be necessary, desirable or expedient to implement and/or give effect to the Mengniu Maanshan Intra-Group Transactions, the Guarantee Agreements and the proposed restated caps for the year 2005 and 2006 in relation to a continuing connected transaction for the transfer of yogurt products amongst Mengniu, Mengniu Beijing and certain Mengniu Subsidiaries for inventory adjustment purposes as disclosed under category 16 on page 116 in the Prospectus.”

SPECIAL RESOLUTIONS

10. **“THAT** the Articles of Association of the Company be amended as follows:
- (a) By inserting the following definition of “Nomination Committee” in Article 2 after the definition of “month”.

NOTICE OF ANNUAL GENERAL MEETING

“Nomination Committee” means the committee appointed pursuant to Article 94A of the Articles of Association and acting in accordance to these Articles of Association;”

- (b) By inserting the words “and shall be no more than ten” at the end of Article 94.
- (c) By adding a new Clause 94A after Clause 94 as follows:

“94A The Nomination Committee shall be appointed by the Board for the purpose of nominating individuals for election as a Director by evaluating the individual’s experience, qualifications and suitability as a Director.

The Nomination Committee shall be comprised of not less than three members of the Board, one of which must also be the Chairman of the Board from time to time who will also be appointed as a chairman of the Nomination Committee. Each member of the Nomination Committee shall have one vote and not less than 2 members shall be a quorum. Decisions of the Nomination Committee will be made by a majority of votes and in case of an equality of votes the Chairman shall have the second or casting vote. If a member of the Nomination Committee ceases to be Director of the Company, then he or she will cease to be a member of the Nomination Committee.”

- (d) By adding the words “so nominated by the Nomination Committee” after “any person” in the second line of Article 95.
- (e) By adding the following words at the end of Articles 95, 112 and 115 respectively:

“Director being re-elected need not have been nominated by the Nomination Committee if they are retiring due to rotation pursuant to Article 112 and are being nominated for re-election at a general meeting.”
- (f) By adding the words “so nominated by the Nomination Committee” at the end of Article 113.
- (g) By adding the words “and shall not be more than ten” at the end of the first sentence of Article 115 and adding the words “so nominated by the Nomination Committee” after “ordinary resolution elect any person” in the sixth line.
- (h) By deleting the words “unless recommended by the Board” in the first and second lines of Article 116, by deleting the word “Secretary” in the eighth line of Article 116 and replacing with “Nomination Committee” and adding the words “, and the Nomination Committee has approved such person for nomination” at the end of the Article.
- (i) By adding the words “so nominated by the Nomination Committee” after “ordinary resolution elect another person” in the seventh line of Article 118(a)”.

By Order of the Board
Lo Ka Wai, Claudia
Company Secretary

Hong Kong, 27 May 2005

NOTICE OF ANNUAL GENERAL MEETING

Notes:

- (1) Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. All proxies must be deposited with the Company's Share Registrars, Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the meeting.
- (2) The Register of Members will be closed from Wednesday, 22 June 2005 to Tuesday, 28 June 2005 (both days inclusive). In order to establish entitlements to the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Computershare Hong Kong Investor Services Limited, 1712-16, 17th Floor, Hopewell Centre, 183 Queen 's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 21 June 2005.
- (3) With reference to Resolution 3 above, Niu Gensheng, Sun Yubin and Li Jianxin will retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting. Details of the above Directors are set out in Appendix III to the circular dated 27 May 2005.
- (4) With reference to Resolutions 5, 6 and 7 above, the Directors wish to state that they have no immediate plans to repurchase any existing shares or to issue any new shares or warrants pursuant to the relevant mandate.
- (5) With reference to Resolution 9 above, details of the transactions mentioned therein are set out in the paragraph headed "The Transactions" under the section "Letter from the Board" of the circular in relation to continuing connected transactions and financial assistance dated 27 May 2005.