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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.

This announcement is not an offer of securities for sale in the United States. The securities may not be offered or sold in the United States absent registration under the U.S. Securities Act of 1933 or an exemption from registration. Any public offering of securities to be made in the United States will be made by means of a prospectus that may be obtained from the issuer or selling shareholders.



China Mengniu Dairy Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

CONVERSION OF THE CONVERTIBLE INSTRUMENTS AND PLACING OF CONVERTED SHARES BY THE FINANCIAL INVESTORS AND PLACING OF EXISTING SHARES BY THE MANAGEMENT SHAREHOLDERS

The Company has been informed by MS Dairy Holdings ("MS Dairy"), CDH China Fund, L.P. ("CDH"), Actis China Investment Company Limited ("Actis") (together, the "Financial Investors"), and Jinniu Milk Industry Limited ("Jinniu"), shareholders of the Company, that they are exercising their rights to convert all of their Convertible Instruments. Subsequent to the conversion MS Dairy, CDH, Actis and Jinniu will be allotted 130,321,990, 41,346,221, 23,614,553 and 62,608,768 Shares in the Company, respectively.

Each of the Financial Investors, Jinniu and Yinniu Milk Industry Limited ("Yinniu") (Jinniu and Yinniu are collectively referred to as the "Management Shareholders") have entered into a Share Placing Agreement with Morgan Stanley & Co International Limited (the "Placing Agent") pursuant to which the Placing Agent will purchase or procure purchasers to acquire, and the Financial Investors and the Management Shareholders will sell, in aggregate, 315,572,045 Shares (the "Placing Shares") to investors at the placing price of HK\$4.95 per Placing Share (the "Placing"). The Placing Shares represent approximately 23.06% of the issued share capital of the Company on a "fully converted" basis (based on all of the Convertible Instruments having been converted). Subsequent to the Placing, MS Dairy, CDH and Actis shall hold respectively, 877,820, 273,776 and 159,123 Shares in the Company in aggregate representing approximately 0.10% of the enlarged issued share capital of the Company on a "fully converted" basis. Jinniu and Yinniu shall hold 181,997,979 and 253,292,187 Shares in the Company.

At the request of the Company, trading of the Shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") was suspended from 9:30 a.m. on 14 June 2005. Application has been made to the Stock Exchange for resumption of the trading of the Shares with effect from 9:30 a.m. on 15 June 2005.

CONVERSION

The Financial Investors are holders of convertible instruments issued by the Company in the principal amount of US\$18,676,035. Jinniu is a holder of convertible instruments issued by the Company in the principal amount of US\$5,987,644 (together with convertible instruments of the Financial Investors, the "Convertible Instruments"). Pursuant to the terms of the Convertible Instruments, each of the Financial

Investors and Jinniu are entitled to convert all of the outstanding principal amount at any time after the date falling twelve months after the listing of the Shares of the Company, 10 June 2004 (the “**Listing**”). A conversion notice has been issued on 13 June 2005 by each of the Financial Investors and Jinniu to the Company for the conversion of all outstanding Convertible Instruments. Subsequent to the conversion, MS Dairy, CDH, Actis and Jinniu are allotted 130,321,990, 41,346,221, 23,614,553 and 62,608,768 Shares (the “**Converted Shares**”) in the Company, respectively, representing approximately 9.52%, 3.02%, 1.73% and 4.58%, respectively, of the enlarged issued share capital of the Company on a “fully converted” basis.

Unless otherwise specified, the percentages in relation to share interest in the Company shown throughout in this announcement have been calculated based on the assumption that all of the Convertible Instruments have been fully converted.

PLACING

The Company has been informed by the Financial Investors and the Management Shareholders that a share placing agreement dated 13 June 2005 (the “**Share Placing Agreement**”) has been entered into by each of them with the Placing Agent on the terms summarised below. For each respective Financial Investor, save for the number of Shares placed, the terms of each of their Share Placing Agreement are identical. For each Management Shareholder save for the number of Shares placed, the terms of each of their Share Placing Agreement are identical.

PARTIES

MS Dairy, CDH, Actis, Jinniu and Yinniu have each entered into a separate Share Placing Agreement with the Placing Agent.

Jinniu and Yinniu are shareholders of the Company and directly holds, prior to the conversion, 158,344,007 and 335,937,391 Shares of the Company respectively, representing approximately 11.57% and 24.55%, respectively, of the enlarged issued share capital of the Company consisting of 1,368,416,473 Shares on a “fully converted” basis. Jinniu also holds Convertible Instruments issued by the Company in the principal amount of US\$5,987,644 which are convertible into 62,608,768 Shares, representing approximately 4.58% of the enlarged issued share capital of the Company on a “fully converted” basis.

The Financial Investors hold Convertible Instruments in the aggregate principal amount of US\$18,676,035.

NUMBER OF PLACING SHARES

| | |
|----------|------------------------------------|
| Jinniu | : 38,954,796 Shares; |
| Yinniu | : 82,645,204 Shares; |
| MS Dairy | : 129,444,170 Converted Shares; |
| CDH | : 41,072,445 Converted Shares; and |
| Actis | : 23,455,430 Converted Shares, |

and, in aggregate, 315,572,045 Placing Shares, representing approximately 23.06% of the enlarged share capital of the Company on a “fully converted” basis.

PLACING PRICE

HK\$4.95 per Placing Share, representing a discount of approximately 3.88% to the closing price of HK\$5.15 per Share as quoted on the Stock Exchange on 13 June 2005 and a discount of approximately 1.98% to the average closing price for the month commencing 13 May 2005 and ending 13 June 2005 (both dates inclusive).

PLACEES

The Placing Agent has undertaken to each of the Financial Investors and the Management Shareholders it has to use its best endeavours to ensure that the placees of the Placing are investors who are independent of and not connected with any connected persons of the Company (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited).

CONDITIONS OF THE PLACING

The Placing is conditional upon, inter alia, there having been no material and adverse breach of any of the representations, warranties or undertakings by each of the Financial Investors and the Management Shareholders referred to in each respective Share Placing Agreement and no occurrence of an event of force majeure.

COMPLETION OF THE PLACING

Completion of the Placing is expected to take place on 16 June 2005, or such other date as may be agreed by each of the Financial Investors, Management Shareholders and the Placing Agent.

After the conversion and prior to the completion of the Placing, MS Dairy, CDH, Actis and Jinniu hold 130,321,990, 41,346,221, 23,614,553 and 220,952,775 Shares in the Company respectively, representing approximately 9.52%, 3.02%, 1.73% and 16.15%, respectively, in the issued share capital of the Company consisting of 1,368,416,473 Shares. Yinniu and Mr Niu Gensheng (see Note 3 below) respectively holds 335,937,391 and 45,505,172 Shares, representing approximately 24.55% and 3.33%, respectively, in the then issued share capital of the Company consisting of 1,368,416,473 Shares. The general public holds 570,738,371 Shares, representing approximately 41.71% in the issued share capital of the Company.

On completion of the Placing, Mr Niu Gensheng's shareholding interests will remain the same as set out above and the Financial Investors will hold, in aggregate, 1,310,719 Shares in the Company. Jinniu and Yinniu will hold 181,997,979 and 253,292,187 Shares in the Company respectively. The general public will hold 886,310,416 Shares, representing 64.77% in the then issued share capital of the Company consisting of 1,368,416,473 Shares.

During the six month period commencing from the expiry of 12 months from the Listing and ending on the expiry of 18 months from the Listing, pursuant to the lock-up undertakings contained in the underwriting agreements executed at the time of Listing, each of the Financial Investors shall not dispose or transfer more than 85% on a "fully converted basis" of its share interests in the Company. Pursuant to such limitation, the Financial Investors shall only place a portion of the Converted Shares and continue to hold 1,310,719 Shares in the Company.

Jinniu and Yinniu are subject to lock-up undertakings as set out in the underwriting agreements executed at the time of the Listing and pursuant to a supplemental agreement entered into with the Company on 14 May 2004 (the "**Supplemental Agreement**"). Jinniu and Yinniu are permitted to transfer Shares after the expiry of 12 months from the Listing, but the underwriters must first be informed of such transfer and Jinniu and Yinniu must take all reasonable steps to ensure that such transfer will not create a disorderly or false market for the Shares. In accordance with the Supplemental Agreement, after the expiry of 12 months after the Listing, Yinniu is permitted to transfer up to 30% of the Shares held indirectly through Yinniu by Mr Xie Qiuxu, a shareholder of Yinniu. Mr Xie Qiuxu holds 52.21% of Yinniu and is beneficially entitled to an equivalent proportion of the Shares in the Company held by Yinniu. After the expiry of 24 months after the Listing, Yinniu is permitted to transfer up to 80% of the Shares held indirectly through Yinniu by Mr Xie Qiuxu. It was agreed that as long as the Financial Investors continue to hold Shares and/or Convertible Instruments, Jinniu should not dispose of more than the lesser of (i) 30% of its interest in Shares as held on 14 May 2004; or (ii) such number of shares as if equal to the number of Shares held by

Jinniu on 14 May 2004 multiplied by the total number of Shares disposed of by the Financial Investors on a fully diluted basis divided by the total number of Shares held by the Financial Investors on a fully diluted basis as held on 14 May 2004.

Once the Financial Investors' aggregate interest in the Company is less than 5% of their interest in the Company as at 14 May 2004, all restrictions under the Supplemental Agreement shall terminate immediately. On 100% conversion of the Convertible Instruments, the change in the shareholding structure of the Company pursuant to the Placing is set out below:

| | <u>Before Placing</u> | | <u>After Placing</u> | |
|--------------------------------------------------------|--------------------------------------------------|-------------------------------------------------|--------------------------------------------------|-------------------------------------------------|
| | <u>Number of Shares assuming full conversion</u> | <u>% share capital assuming full conversion</u> | <u>Number of Shares assuming full conversion</u> | <u>% share capital assuming full conversion</u> |
| MS Dairy | 130,321,990 | 9.52% | 877,820 | 0.06% |
| CDH | 41,346,221 | 3.02% | 273,776 | 0.02% |
| Actis | 23,614,553 | 1.73% | 159,123 | 0.01% |
| Yinniu (<i>Note 1</i>) | 335,937,391 | 24.55% | 253,292,187 | 18.51% |
| Jinniu (<i>Note 2</i>) | 220,952,775 | 16.15% | 181,997,979 | 13.30% |
| Mr Niu Gensheng (<i>Note 3</i>) | 45,505,172 | 3.33% | 45,505,172 | 3.33% |
| Public | <u>570,738,371</u> | <u>41.71%</u> | <u>886,310,416</u> | <u>64.77%</u> |
| Total enlarged share capital on full conversion | <u>1,368,416,473</u> | <u>100.00%</u> | <u>1,368,416,473</u> | <u>100.00%</u> |

Note 1: Yinniu Milk Industry Limited ("Yinniu") is a limited liability company organized and existing under the laws of the British Virgin Islands and a substantial shareholder of the Company. Shares of Yinniu are held by 16 shareholders, all of whom except for one of the shareholders are members of the middle management and business associates of Inner Mongolia Mengniu Milk Industry (Group) Co., Ltd. ("Mengniu"), a foreign investment joint stock limited company incorporated in the People's Republic of China and the principal operating subsidiary of the Company and its subsidiaries.

Note 2: Jinniu Milk Industry Limited ("Jinniu") is a limited liability company organized and existing under the laws of the British Virgin Islands and a substantial shareholder of the Company. Shares of Jinniu are held by 15 shareholders, all of whom are members of senior management of Mengniu.

Note 3: Mr Niu Gensheng is the Chief Executive Officer of the Company.

LOCK-UP

Pursuant to the Placing Agreement entered into by Jinniu and Yinniu respectively, the parties have agreed that Jinniu and Yinniu shall not, from the date of the Placing Agreement until the expiry of 12 months from such date, dispose of any Shares by way of offer, pledge, option, right, warrant, lending or otherwise transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares or any interests therein or announce any intention of the above.

Pursuant to the Placing Agreement entered into by the Financial Investors, the parties have agreed that each of the Financial Investors from the date of the Placing Agreement until the expiry of 90 days from such date, dispose of any Shares by way of offer, pledge, option, right, warrant, lending or otherwise transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares or announce any intention of the above.

GENERAL INFORMATION

At the request of the Company, trading of the Shares on the Main Board of the Stock Exchange was suspended from 9:30a.m. on 14 June 2005. Application has been made to the Stock Exchange for resumption of the trading of the Shares with effect from 9:30 a.m. on 15 June 2005.

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

Hong Kong, 14 June 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 (**The Standard**)*