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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**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 to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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**CHINA MENGIU DAIRY COMPANY LIMITED**

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

**(Stock Code: 2319)**

**DISCLOSEABLE TRANSACTIONS**

**FORMATION OF FRESH DAIRY PRODUCTS JOINT VENTURES  
WITH DANONE**

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8 January 2007

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## DEFINITIONS

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*In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:*

“Beijing Contract”	an agreement dated 18 December 2006 entered into between Beijing Mengniu and Danone in relation to their co-investment in Mengniu Danone (Beijing)
“Beijing Mengniu”	Mengniu Dairy (Beijing) Co., Ltd. (蒙牛乳業(北京)有限責任公司), a limited liability company incorporated under PRC law and an indirect non-wholly owned subsidiary of the Company
“Beijing Property”	the land use rights of the land on which the existing production activities in relation to Fresh Dairy Products are carried out by Beijing Mengniu
“Company”	China Mengniu Dairy Company Limited, a company incorporated in the Cayman Islands with limited liability the shares of which are listed on the main board of the Stock Exchange
“Closing”	the closing of the transactions as contemplated in the Joint Venture Contracts
“Danone”	Compagnie Gervais Danone, a limited liability company established under the laws of France and a direct subsidiary of Groupe Danone
“Directors”	the directors of the Company
“FDP Business”	the business of manufacturing, marketing, distributing and/or selling Fresh Dairy Products
“Fresh Dairy Products”	milk based food or beverage products which require refrigeration during their distribution and for their preservation (frozen products such as ice-cream, and traditional and processed cheese are excluded), including but not limited to pasteurised milk, yogurts (whether containing probiotics ferments or not), quark range of products, milk based desserts and snacks, and milk based drinks (whether fermented or not), irrespective of the type of packaging of such products
“Group”	the Company and its subsidiaries

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## DEFINITIONS

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“Groupe Danone”	Groupe Danone, the holding company of Danone, whose securities are listed on the New York Stock Exchange
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Inner Mongolia Contract”	an agreement dated 18 December 2006 entered into between Inner Mongolia Mengniu and Danone in relation to their co-investment in Mengniu Danone (Hohhot)
“Inner Mongolia Mengniu”	Inner Mongolia Mengniu Dairy (Group) Co., Ltd. (內蒙古蒙牛乳業(集團)股份有限公司), a limited liability company incorporated under PRC law and an indirect non-wholly owned subsidiary of the Company
“Intangibles”	technology, systems, expertise, know-how, resources, materials and information in relation to the FDP Business
“Jiaozuo Mengniu”	Mengniu Dairy Jiaozuo Co., Ltd. (蒙牛乳業焦作有限責任公司), a sino-foreign equity joint venture limited liability company incorporated in the PRC and an indirect non-wholly owned subsidiary of the Company
“Joint Ventures”	Mengniu Danone (Hohhot), Mengniu Danone (Beijing) and Mengniu Danone (Ma’anshan)
“Joint Venture Contracts”	the Inner Mongolia Contract, the Beijing Contract and the Ma’anshan Contract
“Latest Practicable Date”	4 January 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ma’anshan Contract”	an agreement dated 18 December 2006 entered into between Ma’anshan Mengniu and Danone in relation to their co-investment in Mengniu Danone (Ma’anshan)

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## DEFINITIONS

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“Ma’anshan Mengniu”	Mengniu Dairy (Ma’anshan) Co., Ltd. (蒙牛乳業(馬鞍山)有限公司), a limited liability company incorporated under PRC law and an indirect non-wholly owned subsidiary of the Company
“Ma’anshan Property”	the land use rights of the land on which the existing production activities in relation to Fresh Dairy Products are carried out by Ma’anshan Mengniu
“Macau”	the Macau Special Administrative Region of the PRC
“Mengniu Danone (Beijing)”	Mengniu Danone (Beijing) Dairy Co., Ltd. (蒙牛達能(北京)乳業有限公司), a sino-foreign equity joint venture of limited liability to be established pursuant to the Beijing Contract
“Mengniu Danone (Hohhot)”	Mengniu Danone (Hohhot) Dairy Co., Ltd. (蒙牛達能(呼和浩特)乳業有限公司), a sino-foreign equity joint venture of limited liability to be established pursuant to the Inner Mongolia Contract
“Mengniu Danone (Ma’anshan)”	Mengniu Danone (Ma’anshan) Dairy Co., Ltd. (蒙牛達能(馬鞍山)乳業有限公司), a sino-foreign equity joint venture of limited liability to be established pursuant to the Ma’anshan Contract
“Parties”	named parties to the Joint Venture Contracts
“PRC”	People’s Republic of China which, for the purpose of this announcement, includes Hong Kong and Macau but excludes Taiwan
“Reserved Matters”	the matters specified in the relevant Joint Venture Contract which the Chairman of the relevant Joint Venture does not have a casting vote over their determination. Such matters include, but not limited to, any lease, assignment and disposal of asset, incurrence of debt, creation of encumbrance or entry into a related-party transaction by the relevant Joint Venture with an amount which exceeds the threshold as specified in the relevant Joint Venture Contract, but exclude any day-to-day operational matters determined in the relevant Joint Venture’s annual budget

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## DEFINITIONS

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“RMB”	Renminbi, the lawful currency of the PRC
“Shenyang Mengniu”	Mengniu Dairy (Shenyang) Co., Ltd. (蒙牛乳業(瀋陽)有限責任公司), a sino-foreign equity joint venture limited liability company incorporated in the PRC and an indirect non-wholly owned subsidiary of the Company
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Tai’an Mengniu”	Mengniu Dairy Tai’an Co., Ltd. (蒙牛乳業泰安有限責任公司), a sino-foreign equity joint venture limited liability company incorporated in the PRC and an indirect non-wholly owned subsidiary of the Company

*In this circular, the exchange rate of RMB1.006 to HK\$1 is used.*

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## LETTER FROM THE BOARD

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# CHINA MENGNIU DAIRY COMPANY LIMITED

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

**(Stock Code: 2319)**

*Executive Directors:*

Niu Gensheng (*Chief Executive Officer*)

Yang Wenjun

Sun Yubin

*Non-executive Director:*

Jiao Shuge (*alias Jiao Zhen*) (*Chairman*)

Lu Jun

Julian Juul Wolhardt

*Independent Non-executive Directors:*

Wang Huaibao

Zhang Julin

Li Jianxin

*Company Secretary:*

Lo Ka Wai, Claudia

*Registered Office:*

M&C Corporate Service

PO Box 309 GT

Ugland House

South Church Street

George Town

Grand Cayman

Cayman Islands

8 January 2007

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE TRANSACTIONS**

### **FORMATION OF FRESH DAIRY PRODUCTS JOINT VENTURES WITH DANONE**

#### **INTRODUCTION**

By an announcement dated 18 December 2006, the Board announced that on 18 December 2006, (1) Inner Mongolia Mengniu entered into the Inner Mongolia Contract with Danone for the formation of Mengniu Danone (Hohhot); (2) Beijing Mengniu entered into the Beijing Contract with Danone for the formation of Mengniu Danone (Beijing) and (3) Ma'anshan Mengniu entered into the Ma'anshan Contract with Danone for the formation of Mengniu Danone (Ma'anshan). Pursuant to the Joint Venture Contracts, the Joint Ventures will be formed to produce, market, distribute and sell Fresh Dairy Products in the PRC.

This circular contains, inter alia, details of the Joint Venture Contracts.

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## LETTER FROM THE BOARD

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### JOINT VENTURE CONTRACTS

A summary of the principal terms of each of the Joint Venture Contracts is set out below.

#### Parties

##### *Inner Mongolia Contract:*

- (a) Inner Mongolia Mengniu
- (b) Danone

##### *Beijing Contract:*

- (a) Beijing Mengniu
- (b) Danone

##### *Ma'anshan Contract:*

- (a) Ma'anshan Mengniu
- (b) Danone

#### Date of the Joint Venture Contracts

18 December 2006

The Directors confirm that to the best of their knowledge, information and belief having made all reasonable enquiries, Danone and its ultimate beneficial owners are third parties independent of and not connected with the Company or its connected persons (as defined in the Listing Rules). The Directors further confirm that to the best of their knowledge, information and belief having made all reasonable enquiries, other than their respective participation in the Joint Ventures, each of Danone and its ultimate beneficial owners does not have any relationship or previous dealings with any member of the Group.



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## LETTER FROM THE BOARD

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### **Subject Matter and Consideration**

#### *Mengniu Danone (Hohhot):*

The total investment and registered capital of Mengniu Danone (Hohhot) are approximately RMB195.7 million (equivalent to approximately HK\$194.5 million) and approximately RMB72 million (equivalent to approximately HK\$71.6 million) respectively. Mengniu Danone (Hohhot) will be owned as to 51% by Inner Mongolia Mengniu and 49% by Danone. Inner Mongolia Mengniu's contribution of approximately RMB36.7 million (equivalent to approximately HK\$36.5 million) will consist of assets in relation to the FDP Business of Inner Mongolia Mengniu (mainly production equipment). These assets will be valued at their respective net book value at Closing. Any shortfall between the value of the contributed assets and Inner Mongolia Mengniu's commitment will be made up by an amount of cash equal to the shortfall. The contribution of Danone in the amount of approximately RMB35.3 million (equivalent to approximately HK\$35.1 million) will be in the form of cash.

In addition to the above, Danone will at Closing further contribute approximately RMB13.7 million (equivalent to approximately HK\$13.6 million) in cash to Mengniu Danone (Hohhot) which will be recorded in the capital common reserve fund of Mengniu Danone (Hohhot). Inner Mongolia Mengniu will also, and will procure Tai'an Mengniu, Jiaozuo Mengniu and Shenyang Mengniu to, transfer their respective Intangibles and assign or otherwise transfer their respective contracts, licences and other commitments in connection with the FDP Business to Mengniu Danone (Hohhot) at Closing. In compliance with the relevant accounting standards, the Intangibles were not recorded in the financial statements of Inner Mongolia Mengniu, Tai'an Mengniu, Jiaozuo Mengniu or Shenyang Mengniu. Thus, the cap amount of the contribution of Inner Mongolia Mengniu under the Inner Mongolia Contract is 51% of the registered capital of Mengniu Danone (Hohhot) as set out above.

Save as the above, each of Inner Mongolia Mengniu and Danone has no other capital commitment in respect of Mengniu Danone (Hohhot). The contributions by Inner Mongolia Mengniu and Danone as mentioned above will be completed at Closing.

#### *Mengniu Danone (Beijing):*

The total investment and registered capital of Mengniu Danone (Beijing) are approximately RMB704.4 million (equivalent to approximately HK\$700.2 million) and RMB366 million (equivalent to approximately HK\$363.8 million) respectively. Mengniu Danone (Beijing) will be owned as to 51% by Beijing Mengniu and 49% by Danone. Beijing Mengniu's contribution of approximately RMB186.7 million (equivalent to approximately HK\$185.6 million) will consist of assets in relation to the FDP Business of Beijing Mengniu (mainly production building and equipment) and the Beijing Property. These assets (other than the Beijing Property) will be valued at their respective net book value at Closing. The Beijing Property has been valued at approximately RMB30.7 million (equivalent to

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## LETTER FROM THE BOARD

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approximately HK\$30.5 million) as at 9 November 2006 as determined by an independent appraiser. Any shortfall between the value of the contributed assets and Beijing Mengniu's commitment will be made up by an amount of cash equal to the shortfall. The contribution of Danone in the amount of approximately RMB179.3 million (equivalent to approximately HK\$178.2 million) will be in the form of cash.

In addition to the above, Danone will at Closing further contribute approximately RMB41.1 million (equivalent to approximately HK\$40.9 million) in cash to Mengniu Danone (Beijing) which will be recorded in the capital common reserve fund of Mengniu Danone (Beijing). Beijing Mengniu will also transfer its Intangibles and assign or otherwise transfer its trademarks, contracts, licences and other commitments in connection with the FDP Business to Mengniu Danone (Beijing) at Closing. In compliance with the relevant accounting standards, the Intangibles were not recorded in the financial statements of Beijing Mengniu. Thus, the cap amount of the contribution of Beijing Mengniu under the Beijing Contract is 51% of the registered capital of Mengniu Danone (Beijing) as set out above.

Save as the above, each of Beijing Mengniu and Danone has no other capital commitment in respect of Mengniu Danone (Beijing). The contributions by Beijing Mengniu and Danone as mentioned above will be completed at Closing.

### *Mengniu Danone (Ma'anshan):*

The total investment and registered capital of Mengniu Danone (Ma'anshan) are approximately RMB704.4 million (equivalent to approximately HK\$700.2 million) and approximately RMB310 million (equivalent to approximately HK\$308.2 million) respectively. Mengniu Danone (Ma'anshan) will be owned as to 51% by Ma'anshan Mengniu and 49% by Danone. Ma'anshan Mengniu's contribution of approximately RMB158.1 million (equivalent to approximately HK\$157.2 million) will consist of assets in relation to the FDP Business of Ma'anshan Mengniu (mainly production building and equipment) and the Ma'anshan Property. These assets (other than the Ma'anshan Property) will be valued at their respective net book value at Closing. The Ma'anshan Property has been valued at approximately RMB22.2 million (equivalent to approximately HK\$22.1 million) as at 7 November 2006 as determined by an independent appraiser. Any shortfall between the value of the contributed assets and Ma'anshan Mengniu's commitment will be made up by an amount of cash equal to the shortfall. The contribution of Danone in the amount of approximately RMB151.9 million (equivalent to approximately HK\$151.0 million) will be in the form of cash.

In addition to the above, Danone will at Closing further contribute approximately RMB82.2 million (equivalent to approximately HK\$81.7 million) in cash to Mengniu Danone (Ma'anshan) which will be recorded in the capital common reserve fund of Mengniu Danone (Ma'anshan). Ma'anshan Mengniu will also transfer its Intangibles and assign or otherwise transfer its contracts, licences and other

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## LETTER FROM THE BOARD

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commitments in connection with the FDP Business to Mengniu Danone (Ma'anshan) at Closing. In compliance with the relevant accounting standards, the Intangibles were not recorded in the financial statements of Ma'anshan Mengniu. Thus, the cap amount of the contribution of Ma'anshan Mengniu under the Ma'anshan Contract is 51% of the registered capital of Mengniu Danone (Ma'anshan) as set out above.

Save as the above, each of Ma'anshan Mengniu and Danone has no other capital commitment in respect of Mengniu Danone (Ma'anshan). The contributions by Ma'anshan Mengniu and Danone as mentioned above will be completed at Closing.

### **Conditions precedent to Closing**

Closing of the Joint Venture Contracts are subject to, among others, the Joint Venture Contracts and the articles of association of the Joint Ventures having been approved by the relevant PRC approval authorities, the business licenses of the Joint Ventures having been issued and the Joint Ventures having obtained all necessary licenses and approvals for the conduct of their respective businesses.

If the conditions precedent are not fulfilled by 18 December 2007 (or such other date as may be agreed by the Parties), all the Joint Venture Contracts shall be terminated.

### **Further investment or financing**

In the event that any of the Joint Ventures requires additional capital or funds, the board of directors of the relevant Joint Venture will determine the most appropriate way of funding at the relevant time, which includes but not limited to further capital contribution by the Parties or loans from the Parties or other independent third parties. If the relevant Joint Venture considers that additional capital is required, the Parties may make their additional contribution in proportion to their respective interests in the relevant Joint Venture or as otherwise agreed between the Parties at the relevant time. None of the Parties is under any contractual obligation to provide any further capital contribution or financing to the Joint Ventures.

### **Board representation**

*Mengniu Danone (Hohhot):*

The board, being the highest authority of Mengniu Danone (Hohhot), will consist of eight directors. Each of Inner Mongolia Mengniu and Danone will have the right to appoint four directors. The Chairman will be appointed by Inner Mongolia Mengniu and the Vice-Chairman will be appointed by Danone. The Chairman will have a casting vote except for the Reserved Matters specified in the Inner Mongolia Contract.

Decisions regarding the marketing, branding, product development and distribution activities of Mengniu Danone (Hohhot) will be delegated to a strategic committee which will comprise of two directors appointed by Inner Mongolia Mengniu and two directors appointed by Danone. The chairman of the committee will be appointed by Danone who will have a casting vote.

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## LETTER FROM THE BOARD

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### *Mengniu Danone (Beijing):*

The board, being the highest authority of Mengniu Danone (Beijing), will consist of eight directors. Each of Beijing Mengniu and Danone will have the right to appoint four directors. The Chairman will be appointed by Beijing Mengniu and the Vice-Chairman will be appointed by Danone. The Chairman will have a casting vote except for the Reserved Matters specified in the Beijing Contract.

Decisions regarding the marketing, branding, product development and distribution activities of Mengniu Danone (Beijing) will be delegated to a strategic committee which will comprise of two directors appointed by Beijing Mengniu and two directors appointed by Danone. The chairman of the committee will be appointed by Danone who will have a casting vote.

### *Mengniu Danone (Ma'anshan):*

The board, being the highest authority of Mengniu Danone (Ma'anshan), will consist of eight directors. Each of Ma'anshan Mengniu and Danone will have the right to appoint four directors. The Chairman will be appointed by Ma'anshan Mengniu and the Vice-Chairman will be appointed by Danone. The Chairman will have a casting vote except for the Reserved Matters specified in the Ma'anshan Contract.

Decisions regarding the marketing, branding, product development and distribution activities of Mengniu Danone (Ma'anshan) will be delegated to a strategic committee which will comprise of two directors appointed by Ma'anshan Mengniu and two directors appointed by Danone. The chairman of the committee will be appointed by Danone who will have a casting vote.

### **Term of the Joint Ventures**

The initial term of each of the Joint Ventures is 50 years commencing from the date on which the business licence of the relevant Joint Venture is issued. The term of the Joint Ventures can be extended subject to agreement among the relevant Parties.

### **FINANCIAL EFFECT OF THE FORMATION OF THE JOINT VENTURES**

As disclosed above, the Group is required to contribute 51% of the registered capital of each of the Joint Ventures, aggregating approximately RMB381.5 million (equivalent to approximately HK\$379.2 million), in the form of assets injection. The Company is of the view that the Group is able to exercise control over the Joint Ventures. Therefore, the Joint Ventures will be accounted for as subsidiaries of the Group and the financial statements will be consolidated in accordance with the Group's accounting policies. The formation of the Joint Ventures will not have any material effect on the net asset position of the Group.

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## LETTER FROM THE BOARD

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### REASONS FOR AND BENEFITS OF THE JOINT VENTURE CONTRACTS

The Group is principally engaged in the manufacture and distribution of quality dairy products in the PRC. It is one of the leading dairy product manufacturers in the PRC, with *MENGNU* as its core brand. The Group's diverse products include liquid milk products, such as ultra-high temperature milk, yogurt and milk beverages, ice cream and other dairy products such as milk powder.

Danone is a direct subsidiary of Groupe Danone, the securities of which are listed on the New York Stock Exchange. The Danone group is principally engaged in the production of fresh dairy products (including yogurt), bottled water and biscuits. In terms of sales volume, the Danone group is the world leader in fresh dairy products and bottled water and the second largest manufacturer in the biscuit market worldwide.

The formation of the Joint Ventures represents an excellent opportunity for the Group to partner with Groupe Danone, a premier industry leader. The Group can leverage on the partner's expertise and strengths to significantly enhance its competitiveness in the manufacturing of Fresh Dairy Products, and research and development of its FDP Business. With the Group's expertise in marketing and the extensive distribution network, the Joint Ventures will continue to explore and develop the great potential of the Fresh Dairy Product market.

The Directors (including the independent non-executive Directors) are of the view that the terms of each of the Joint Venture Contracts, which were negotiated on an arm's length basis, are fair and reasonable and of normal commercial terms and the Group's participation thereunder is in the best interest of the Company and its shareholders as a whole.

To the extent that the Group is required to make any contribution under the Joint Venture Contracts in the form of cash, the relevant contributions of the Group will be funded principally by the Group's internal resources.

In connection with the establishment of the Joint Ventures, the Parties and the Joint Ventures will enter into a number of auxiliary contracts in relation to, among others, provision of utilities services, leasing of land and office buildings, trademark and technology licensing and other arrangements. The Company will comply with the Listing Rules applicable to the Company in relation to such auxiliary contracts.

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## LETTER FROM THE BOARD

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### **DISCLOSEABLE TRANSACTION**

Based on the “five-tests” calculation set out in Rule 14.07 of the Listing Rules, the applicable percentage ratios in respect of the Group’s total investment under the Joint Venture Contracts exceeds 5% but are less than 25%. The formation of Joint Ventures therefore collectively constitutes a discloseable transaction of the Company under Rule 14.06(2) of the Listing Rules.

### **GENERAL**

Beijing Mengniu, Inner Mongolia Mengniu and Ma’anshan Mengniu are indirect non-wholly owned subsidiaries of the Company.

The Company is an investment holding company and the Group is principally engaged in the manufacture and distribution of quality dairy products in the PRC.

### **ADDITIONAL INFORMATION**

Your attention is drawn to the information set out in the appendix to this circular.

By order of the Board  
**China Mengniu Dairy Company Limited**  
**Niu Gensheng**  
*Chief Executive Officer*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules 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 (other than that in respect of Danone) contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts (other than that in respect of Danone) the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

### (a) Interests in Shares

Name of Director	Company/Name of Associated Corporation	Nature of Interest	No. of Shares	Percentage of the Company's Issued Share Capital
Niu Gensheng	The Company	Personal Interest	45,505,172(L)	3.33%
	The Company	Corporate Interest (Note 1)	216,730,130(L)	15.84%
	Inner Mongolia Mengniu	Personal Interest	16,514,220(L)	6.18%
	Inner Mongolia Mengniu	Personal Interest (Note 2)	7,325,670(S)	2.74%
Lu Jun	Inner Mongolia Mengniu	Personal Interest	804,646(L)	0.30%
Yang Wenjun	Inner Mongolia Mengniu	Personal Interest	1,068,646(L)	0.40%
Sun Yubin	Inner Mongolia Mengniu	Personal Interest	1,772,646(L)	0.66%

*Notes:*

1. These shares are held by Yinniu Milk Industry Limited (“Yinniu”), a substantial shareholder of the Company, and Niu Gensheng, by virtue of the Xie Trust, has been delegated voting rights to the shares in Yinniu held in the Xie Trust. The Xie Trust has been in effect since September 2002 and is a trust declared by Xie Qiuxu in respect of the shares in Yinniu held on trust by him for a selected group of individuals comprising employees and business associates of Inner Mongolia Mengniu. Xie Qiuxu has similarly delegated the voting rights of his own shares in Yinniu to Niu Gensheng. Together with his personal interest in Yinniu, Niu Gensheng controls 81.3% of the voting rights of Yinniu.
2. Out of his shareholdings in Inner Mongolia Mengniu, Niu Gensheng granted an option of 7,325,670 shares in total, representing approximately 2.74% of the issued capital of Inner Mongolia Mengniu, to CDH China Fund, L.P., Actis China Investment Company Limited and MS Dairy Holdings (“Financial Investors”) on 23 March 2004. Such options can be exercised in one or more tranches by each Financial Investor and are exercisable within 10 years. As at the Latest Practicable Date, none of the options have been exercised.

The letter “L” denotes a long position and the letter “S” denotes a short position in the shares.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### 3. DISCLOSURE OF SUBSTANTIAL SHAREHOLDERS’ INTERESTS

As at the Latest Practicable Date, so far as it is known to any Directors or chief executive of the Company, other than the interests and short positions of the Directors or chief executive of the Company as disclosed above, the following persons have an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	No. of Shares	Percentage of Issued Share Capital
Xie Qiuxu ( <i>Note 1</i> )	216,730,130 (L)	15.84%
Jinniu Milk Industry Limited (“Jinniu”) ( <i>Note 2</i> )	152,191,836 (L)	11.12%
AllianceBernstein L.P. (formerly known as Alliance Capital Management L.P.)	94,900,000 (L)	6.94%



*Notes:*

1. As at the Latest Practicable Date, Xie Qiuxu legally owned 59.1% of the issued share capital of Yinniu, which directly owned 15.84% of the issued shares of the Company. Accordingly, the 216,730,130 shares attributable to Xie Qiuxu above represent his indirect interest in the Company via his legal shareholding interest in Yinniu.
2. 10 founding individuals, namely Niu Gensheng, Deng Jiuqiang, Hou Jiangbin, Sun Yubin, 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 the Latest Practicable Date, Niu Gensheng, Deng Jiuqiang, Lu Jun, Sun Yubin, Yang Wenjun, Sun Xianhong and Qiu Lianjun who are shareholders of Jinniu together controlled approximately 83.4% of Jinniu. Niu Gensheng, Xie Qiuxu, Pang Kaitai, Hou Jiangbin and Deng Jiuqiang who are shareholders of Yinniu together controlled approximately 87.2% of Yinniu. As at the Latest Practicable Date, Jinniu and Yinniu in aggregate controlled approximately 26.96% of the voting power at the general meeting of the Company.

The letter “L” denotes a long position in shares.

Save as disclosed herein, as at the Latest Practicable Date, so far as it is known to any Directors or chief executive of the Company, no other person (other than a Director or the chief executive of the Company) has an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such capital.

#### **4. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had a service contract with the Company or any of its subsidiaries which was not determinable by the Group within one year without payment of compensation, other than statutory compensation.

#### **5. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

**6. COMPETING INTERESTS**

As at the Latest Practicable Date, none of Directors or their respective associates (as defined in the Listing Rules) had any interests in a business which competes or may compete with the business of the Group.

**7. MISCELLANEOUS**

- (a) The qualified accountant and secretary of the Company is Ms. Lo Ka Wai Claudia, a fellow of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is located at M&C Corporate Service, P.O. Box 309 GT, Uglund House, South Church Street, George Town, Grand Cayman, Cayman Islands. The principal place of business in Hong Kong is at Unit 1001, 10/F Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong.
- (c) The share registrar of the Company is Butterfield Fund Services (Cayman) Limited at Butterfield House, 68 Ford Street, P.O. Box 705, George Town, Grand Cayman, Cayman Islands. The branch share registrar of the Company is Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.