

Raw Milk Supply

Established exclusive supply contracts with over 1,000 milk collection centers and individual dairy farmers ensures that Mengniu's growth is supported by a secure supply of quality raw milk.

Production

Equipped with world-class production and packaging technologies, Mengniu operated nine production bases with a combined production capacity of 1.66 million tons in the first half of 2004.

Prospects

The Directors believe that China's growing GDP will increase the purchasing power of individuals and encourage further growth of the dairy industry. To capture greater market share, Mengniu will continue to improve its brand equity, introduce new products, deepen its market penetration, expand its production capacity, forge closer business partnerships, and at the same time manage the risk of over-expansion. The Group is confident of its ability to capitalize on the growth trend of the dairy industry in China.

New Products Introduction

With liquid milk as its key segment, the Group will invest additional resources to strengthen its market position, expand distribution channels and to diverge into different product lines such as flavored and functional milk products, premium yogurt and other dairy products to broaden its product portfolio and to seize additional opportunities.

More medium and high-end ice cream products will be launched to capture broader market segments. The Group will increase its in-house production of ice cream products which to date are partly manufactured through external arrangements.

The Group also intends to develop secondary brand names to better differentiate its dairy products to different segments of consumers.

New Markets Penetration

Mengniu will deepen its market penetration through targeted sales channels to consolidate its leading position in the first-tier markets, while prudently expanding into second and third-tier markets. The Group intends to enhance its brand and product awareness by effective promotions, advertising campaigns on nationwide television channels in prime time slots and by broadening its sales network.

Capacity Expansion

Mengniu ultimately targets to build over 100 new production lines for liquid milk products, over 30 for ice cream products and over 50 for other dairy products, achieving total annual production capacity of 2.75 million tons by the end of 2005. By investing the proceeds raised from the global offering in expanding production capacity, Mengniu is set to fulfill the increasing demands for its products.

Partnership Cooperation

In view of the vast but fragmented raw milk supply base, Mengniu will continue to enhance its cooperation with dairy farmers and milk collection centers to expand its milk sources and to ensure the supply of high quality raw milk. It will continue to encourage its existing and new suppliers to develop mid and larger scale milk collection centers, which will allow Mengniu to meet the growing demands for its products.

Management Incentives

To encourage successful implementation of its growth strategies, Mengniu will continue to build employee excellence by strengthening its management system. The management will encourage employee initiatives and work place excellence through established promotion and compensation systems.