

CEO'S STATEMENT



2004 was a landmark year for China Mengniu Dairy Company Limited (the “Company”) in its corporate history. Embracing its corporate mission of raising the health consciousness of the general public and providing them with quality dairy products, the Company has established a renowned national dairy brand in China and became the first Hong Kong listed PRC dairy products provider. On behalf of the Board of Directors, I am pleased to present to all shareholders the annual results of the Company and its subsidiaries (“the Group”) for the year ended 31 December 2004.

Despite the intensifying market competition, the Group focused its efforts on diversifying its product portfolio and implementing effective branding and marketing strategies. This strategic decision resulted in positive business growth momentum for the Group. The Group’s revenue in 2004 rose 77.2% to RMB7,213.8 million, while net profit surged by 94.3% to RMB319.4 million. Basic earnings per share increased by 85.9% to RMB0.357, and diluted earnings per share were RMB0.285. The Board of Directors has also resolved to recommend the payment of a final dividend of RMB0.0585 per share for the year ended 31 December 2004.

The favorable macro environment brought about by China’s strong and fast growing economy in recent years accelerated the rapid development of China’s dairy industry and presented unprecedented growth opportunities for the Group. Improving living standards in the country and heightening health consciousness have led to stronger demand for high quality, nutritional, branded and more sophisticated dairy products.

In order to fully capture the positive market growth potential, the Group brought to market a wider spectrum of dairy products in 2004 in each of its three major product categories. Liquid milk continued to be the greatest revenue generator of the Group during the year, contributing 84.5% to the total revenue. Sales of ice cream recorded rapid growth and accounted for 11.2%



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of the total revenue. The contribution from other dairy products experienced the most substantial growth, with revenue increasing by 217.3%. Its revenue accounted for 4.3% of the Group's total revenue against 2.4% in 2003.

Benefiting from economies of scale, we also enjoyed improved cost efficiency. The budget for advertising and promotions was expended more effectively during the year, and the sales and distribution network were better utilized. As such, the Group's market reach expanded and consumers' brand loyalty was consolidated. Its liquid milk market share in China in terms of volume increased to 22.0% in December 2004 from 17.0% in December 2003, according to ACNielsen.

Apart from satisfactory business performance, the Company also took pride in gaining recognition from institutional investors during the first year of its listing. The Company was awarded the "Best Newly Listed Company in 2004" (China) by *AsiaMoney* magazine and for its IPO the "Best Mid-Cap Equity Deal" by *FinanceAsia*.

Looking ahead, the Group expects competition in China's dairy market to remain keen in 2005. The Group will continue with its ongoing efforts to offer more quality dairy products and contribute to the healthier growth of the dairy industry. To seize opportunities to accelerate growth, the Group will proactively gauge consumers' taste by offering a more diversified portfolio of products to ascertain that the Group stays ahead in the marketplace. The Group will also seek to elevate its brand equity by fully leveraging its extensive sales and distribution network and deepening market penetration by expanding into more second to third tier cities. The strengthening of milk source management will be another key initiative of the Group to enhance its raw milk quality to support the rapid growth of its business.

When Mengniu was founded, we have pledged to build it into an enterprise that would thrive for a century, and also a brand that would make the nation and its people proud. In the long run, the Group will strive for multi-win situations by offering tasty, nutritional and high quality milk products to consumers, to maximize returns to shareholders, cultivate employees with training and incentive systems, and nurture a stronger dairy industry for the country.

I would like to express my heartfelt gratitude to all shareholders and customers for their support. My thanks also go to the highly competent management team and employees. Without their hard work and dedication in the past year, the Group would not have achieved the outstanding results. In the year ahead, the Group will continue to work in concert to bring Mengniu's business to new heights.

NIU Gensheng

Chief Executive Officer

PRC, 6 April 2005