

## CEO'S STATEMENT



I am pleased to present to our shareholders the excellent achievements of the Group in 2005, which are proof of the success of its multi-facet business expansion strategy. As the Chinese economy booms, its dairy industry has also registered continuous growth. With sound competitive edges, I am confident that we can continue to bring satisfactory returns to our shareholders.

**NIU Gensheng**  
*Chief Executive Officer*

I am pleased to present to all shareholders the annual results of China Mengniu Dairy Company Limited ("the Company") and its subsidiaries ("Mengniu" or "the Group") for the year ended 31 December 2005.

The excellent achievements of the Group in 2005 are proof of the success of its multi-facet growth strategy with business expansion as the focus. Despite intense market competition, the Group's revenue in 2005 rose 50.1% to RMB10.825 billion, while net profit attributable to equity holders of the Company grew by 43.0% to RMB456.8 million. Basic and diluted earnings per share were RMB0.365 and RMB0.334 respectively. The board of directors (the "Board") has resolved to recommend the payment of a final dividend of RMB0.0686 per share for the year ended 31 December 2005.

The Group performed exceptionally well in the sale of liquid milk and ice cream, reporting growth in sales that outperformed the market average. Liquid milk continued to be the main revenue generator of the Group during the year, accounting for 86.0% of the Group's revenue and representing an increase of 52.8% over that of the previous year. Sales of ice cream grew a remarkable 60.9% and accounted for 12.0% of the Group's revenue. As for other dairy products, revenue decreased by 31.2% due to the realignment of business operations and product mix and accounted for 2.0% of the Group's revenue.

2005 is a remarkably successful year for our marketing campaigns. We are proud to remain as the exclusive dairy products provider for Chinese cosmonauts and national athletes of the Training Bureau of the State Administration of Sports, evidencing the supreme quality of our products. Our sponsorship of the "Mengniu Suan Suan Ru Super Girl Singing Contest" (「蒙牛酸酸乳超級女聲」) has brought magnificent visibility and enhancement of **MENGNIU** core and secondary brand and was widely considered to be a marketing marvel.

During the year, the Group optimized its product mix through research and development and adding more trendy and innovative value-added products to its product portfolio. We continued to set up production plants at strategic locations, putting us closer to the markets. This gave us better understanding of local markets and tastes and enhanced our responsiveness to market changes. All these complementary strategies have been helpful in boosting sales of different products.

The Group's liquid milk continued to champion the industry in China. By volume, excluding milk beverages and yogurt, its market share increased from 22.0% in December 2004 to 28.6% in December 2005. I am pleased to announce that after six years of hard efforts, the Group has now firmly established its leading position in the market and is widely recognized and accepted by our loyal customers.

We are also happy to see the early termination of the valuation adjustment mechanism under which the founding financial investors agreed to transfer a portion of their shareholding interests to our management shareholders upon the fulfillment of certain performance targets by the Group. Fully satisfied with the Group's outstanding performance, the financial investors early effected the transfer to management shareholders during the year. I would like to take this opportunity to thank the financial investors for their valuable advice in the past years in assisting the Group growth and their continuous representation in and support to the Board.

The change of the popular nationwide slogan "an extra glass of milk breeds a wealthy family" (市民多喝一杯奶·農村致富一家人) to "two glasses of milk a day, morning and night, bring good health and harmony to life" (市民早晚兩杯奶·健康和諧一起來) among Chinese consumers mirrors the improving living standards in the country and heightening health consciousness among the people, which have in turn boosted the demand for high quality, nutritional, and sophisticated dairy products.

Competition will remain keen in 2006 and more mergers and acquisitions are expected. Nevertheless, per capita consumption of milk products among Chinese consumers is still relatively low, meaning the Chinese dairy market has abundant room for sustainable growth. To seize growing business opportunities, the Group has started to explore cooperation opportunities with local and international dairy enterprises to strengthen its foundation and accelerate future growth.

Looking forward, the Group will strive towards its goal to become one of the leading dairy players in the international market. To ensure it stays ahead in the marketplace, the Group will further strengthen our research and development efforts to introduce more nutritious and tasty new products to satisfy customer demands. We will also continue with our innovative marketing campaign, tap new markets and solidify our sales and distribution network to deepen market penetration. We will foster closer partnerships with raw milk suppliers to ensure stable supply of quality raw milk to support the anticipated growth.

In January 2006, Mr Yang Wenjun became my successor as the new Chief Executive Officer of our principal operating subsidiary. We are confident that Mr Yang, who is experienced and passionate about the dairy business and industry, will work with the entire management team and myself to take the Group's business to new heights.

Apart from expressing my heartfelt gratitude to all shareholders and customers for their support, my thanks also go to the highly competent and dedicated Board members, management team and employees. With the continuous hard work of our staff and support of our customers, I am confident that we can continue to bring satisfactory returns to our shareholders.

**NIU Gensheng**  
*Chief Executive Officer*

Hong Kong, 10 April 2006

