

REPORT OF THE DIRECTORS

The board of directors (the “Directors”) has the pleasure in submitting its annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2005.

Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The principal activities of the operating subsidiary, Inner Mongolia Mengniu Dairy (Group) Company Limited (“Mengniu”), formerly known as Inner Mongolia Mengniu Milk Industry (Group) Co., Ltd., and its subsidiaries (which are set out in Note 14 to the financial statements) are manufacturing and distribution of dairy products including liquid milk (comprising UHT milk, milk beverages and yogurt), ice cream and other dairy products (such as milk powder and milk tablets) in China, including Hong Kong and Macau.

The Group’s revenue is derived principally from business activities in China. An analysis of the Group’s performance for the year ended 31 December 2005 by business segment is set out in Note 3 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 40.

The Directors have recommended the payment of a final dividend of RMB0.0686 (2004: RMB0.0585) per share to shareholders whose names appear on the register of members on 23 June 2006, amounting to approximately RMB93,873,000 (2004: RMB64,966,000).

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group and the Company during the year are set out in Note 11 to the financial statements.

Reserves

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 43 and Note 31 to the financial statements. The Company’s distributable reserves, calculated in accordance with statutory provisions applicable in the Company’s place of incorporation, amounted to approximately RMB1,516,046,000 as at 31 December 2005 (2004: RMB1,349,217,000).

Donations

Charitable and other donations made by the Group during the year amounted to approximately RMB3,085,000 (2004: RMB1,500,000).

Share Capital

Movements in the share capital during the year are set out in Note 30 to the financial statements.

Directors

The Directors during the year and up to the date of this report were:

Executive Directors

Mr NIU Gensheng
Ms LU Jun
Mr YANG Wenjun
Mr SUN Yubin

Non-Executive Directors

Mr JIAO Shuge (alias JIAO Zhen)
Mr LIU Haifeng, David (resigned on 26 January 2006)
Mr Julian Juul WOLHARDT (appointed on 26 January 2006)
Ms JIN Yujuan, Lily (resigned on 7 March 2006)

Independent Non-Executive Directors

Mr WANG Huaibao
Mr ZHANG Julin
Mr LI Jianxin

In accordance with Article 112 of the Company's articles of association, Mr Yang Wenjun, Mr Zhang Julin and Mr Julian Juul Wolhardt (who was appointed to the board after the last annual general meeting), will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company considers that Mr Wang Huaibao, Mr Zhang Julin and Mr Li Jianxin are independent pursuant to the criteria set out in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and that confirmations of independence have been received from each of them.

Biographical Details of Directors and Senior Management

Brief biographical details of the Directors and the senior management are set out on pages 14 to 17.

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Directors' Interests in Contracts

Save as disclosed in the section headed "Connected Transactions" in this report, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Interests, Long and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2005, the interests, long and short positions of the Directors and chief executives of the Company in the shares of the Company and associated corporation as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance ("SFO") or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Name of Director	Company/Name of Associated Corporation	Nature of Interest	Total Number of Ordinary 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)	253,292,187 (L)	18.51%
	Mengniu	Personal Interest	21,862,810 (L)	8.18%
	Mengniu	Personal Interest (Note 2)	7,325,670 (S)	2.74%
Lu Jun	Mengniu	Personal Interest	804,646 (L)	0.30%
Yang Wenjun	Mengniu	Personal Interest	1,068,646 (L)	0.40%
Sun Yubin	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 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 81.7% of the voting rights of Yinniu.

(2) Out of his share interests in a subsidiary of the Group, Mengniu, Niu Gensheng granted an option of over 7,325,670 shares in total representing approximately 2.7% of the issued capital of 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. None of the options have been exercised.

(L) Indicates a long position.

(S) Indicates a short position.

Saved as disclosed above, during the year and as at 31 December 2005, none of the Directors and the chief executives had any interests and 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).

Substantial Shareholders' Interests

As at 31 December 2005, the interests or short positions of the substantial shareholders, other than the Directors or the chief executives of the Company whose interests, long and short positions in the shares of the Company are set out above, in the shares and underlying shares of the Company as recorded in the register maintained under section 336 of the SFO were as follows:

Name	Number of Shares Issued	Percentage of Share Capital
Xie Qiuxu (<i>Note 1</i>)	253,292,187 (L)	18.51 (L)
Jinniu Milk Industry Limited ("Jinniu") (<i>Note 2</i>)	181,997,979 (L)	13.30 (L)
The Capital Group Companies, Inc.	96,079,000 (L)	7.02 (L)
Alliance Capital Management L.P.	81,468,000 (L)	5.95 (L)

Notes:

(1) Xie Qiuxu legally owned 62.7% of the issued share capital of Yinniu, which directly owned 18.5% of the issued shares of the Company. Accordingly, the 253,292,187 shares attributable to Xie Qiuxu above represent his indirect effective interest in the Company via his legal shareholding interest in Yinniu.

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- (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 31 December 2005, Niu Gensheng, Deng Jiuqiang, Lu Jun, Sun Yubin, Yang Wenjun, Sun Xianhong and Qiu Lianjun who are shareholders of Jinniu together controlled approximately 81.2% of Jinniu. Niu Gensheng, Xie Qiuxu, Pang Kaitai, Hou Jiangbin and Deng Jiuqiang who are shareholders of Yinniu together controlled approximately 87.7% of Yinniu. Jinniu and Yinniu in aggregate controlled approximately 31.8% of the voting power at the general meeting of the Company.

(L) *Indicates a long position.*

(S) *Indicates a short position.*

Saved as disclosed above, as at 31 December 2005, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register maintained under section 336 of the SFO.

Connected Transactions

Intra-group connected transactions and/or non-exempt connected transactions

Mengniu is a non wholly-owned subsidiary of the Company. As of 31 December 2005, four executive directors of the Company (who are connected persons as defined under the Listing Rules) and another five founding individuals together are entitled to exercise more than 10% of the voting power of Mengniu. As a result, Mengniu was a connected person of the Company as defined under Rule 14A.11(5) the Listing Rules. Accordingly, each of Mengniu's subsidiaries ("Mengniu Subsidiaries") was also a connected person of the Company pursuant to Rule 14A.11(6) of the Listing Rules. Therefore, all intra group transactions between Mengniu and Mengniu Subsidiaries which would otherwise be common and in the ordinary course of group operations for any group of companies, constitute continuing connected transactions under the Listing Rules. Owing to the complexities involved in the Group's transaction flow starting from the manufacturing of various products to when they are received by the Group's distributors, the process involves many intra-group transfers (mainly for accounting and administrative purposes) which constitute non-exempt continuing connected transactions ("Non-Exempt Connected Transactions"). During the year, the Company has obtained approval from its independent shareholders regarding (i) certain new Non-Exempt Connected Transactions arising from the establishment of a new subsidiary, Mengniu Dairy (Maanshan) Co. Ltd. ("Mengniu Maanshan"), (ii) additional guarantees granted by Mengniu to its subsidiaries and (iii) the restatement of caps of certain Non-Exempt Connected Transactions, details of which had been disclosed in the announcement dated 18 May 2005.

Summary of the group's non-exempt connected transactions

During the year, the Group had entered into the following non-exempt continuing connected transactions:

Type of transaction	Amount (RMB'000)
1. Centralised UHT milk and milk beverages products sales arrangement by Mengniu for the Group	3,663,071
2. Sales of UHT milk and milk beverages products by Mengniu to the distributors within the Group for distribution	716,562
3. Transfer of UHT milk and milk beverages products between Mengniu and certain Mengniu Subsidiaries for inventory adjustment purposes	25,638
4. Centralised yogurt product sales arrangement by Mengniu Dairy (Beijing) Co., Ltd. ("Mengniu Beijing") for the Group	150,059
5. Sales of yogurt products by Mengniu Beijing to the distributors within the Group for further distribution	2,710
6. Transfer of yogurt products between Mengniu Beijing and certain Mengniu Subsidiaries for inventory adjustment purposes	17,577
7. Sales of ice cream products between Mengniu and certain Mengniu Subsidiaries for inventory adjustment purposes	82,298
8. Ongoing inventory adjustment of raw materials and production and packaging materials between Mengniu and certain Mengniu Subsidiaries	291,558
9. Provision of guarantees by Mengniu to banking organisations for loans and credit facilities drawn by Mengniu Subsidiaries	395,000
10. Sales of other dairy products by Mengniu to Mengniu Subsidiaries for inventory adjustment purposes	275
11. Sales of ice cream products amongst Mengniu, Mengniu Maanshan and other Mengniu Subsidiaries for inventory adjustment purposes	19,360
12. Ongoing inventory adjustment of raw materials and packaging materials amongst Mengniu, Mengniu Maanshan and other Mengniu Subsidiaries	7,743

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1. Centralised UHT milk and milk beverages products sales arrangement by Mengniu for the Group

The Group has implemented a centralised sales system for its UHT milk and milk beverages products whereby all such products are centralised for sale, billing and invoicing to distributors by Mengniu. Pursuant to this system, those Mengniu Subsidiaries that manufacture UHT milk and milk beverages products sell their UHT milk and milk beverages products to Mengniu and Mengniu then deals with the distributors centrally. These sales do not involve physical delivery to Mengniu as these transactions are merely the Group's operational mechanism to centralise administration. Each of the Mengniu Subsidiaries will execute physical delivery on Mengniu's instructions. The companies in the Group which take part in this arrangement include Mengniu and Mengniu Subsidiaries that produce UHT milk and milk beverages products, including Mengniu Beijing, Inner Mongolia Mengniu Dairy Baotou Co., Ltd. ("Mengniu Baotou"), Inner Mongolia Mengniu Dairy Keerqin Co., Ltd. ("Mengniu Keerqin"), Mengniu Dairy Wulanhaote Co., Ltd. ("Mengniu Wulanhaote"), Inner Mongolia Mengniu Dairy (Group) Shanxi Dairy Co., Ltd. ("Mengniu Shanxi"), Mengniu Dairy Taian Co., Ltd. ("Mengniu Taian"), Mengniu Dairy (Jiaozuo) Co., Ltd. ("Mengniu Jiaozuo"), Mengniu Dairy (Shenyang) Co., Ltd. ("Mengniu Shenyang"), Mengniu Dairy (Dengkou Bayan Gaole) Co., Ltd. ("Mengniu Dengkou"), Mengniu Dairy (Tangshan) Co., Ltd. ("Mengniu Tangshan"), Mengniu Dairy (Luannan) Co., Ltd. ("Mengniu Luannan") and Mengniu Maanshan, each of the above companies is a company incorporated in the PRC and an indirect non-wholly owned subsidiary of the Company. Mengniu and relevant subsidiaries, except Mengniu Maanshan, have entered into a centralised sales agreement dated 13 May 2004 for an initial period of three years commencing 1 January 2004 ending 31 December 2006. Mengniu and Mengniu Maanshan have entered into a centralised sales agreement dated 18 May 2005 for an initial period of three years. During the year, Mengniu Maanshan has not entered into such transaction.

2. Sales of UHT milk and milk beverages products by Mengniu to the distributor within the Group for distribution

As described above, Mengniu is responsible for dealing and liaising with the distributors of UHT milk and milk beverages products, which include Beijing Mengniu Hongda Dairy Product Co. Ltd. ("Mengniu Hongda") (a company incorporated in the PRC and an indirect non-wholly owned subsidiary of the Company). Mengniu sells its UHT milk and milk beverages products to the distributor for further distribution. Delivery is usually handled by the relevant Mengniu Subsidiaries which manufacture the UHT milk and milk beverages products. Mengniu and Mengniu Hongda have on 13 May 2004 entered into a distribution agreement for the Beijing area for an initial period of three years commencing 1 January 2004 ending 31 December 2006.

3. Transfer of UHT milk and milk beverages products between Mengniu and certain Mengniu Subsidiaries for inventory adjustment purposes

As part of the centralised sales system described above, delivery of the UHT milk and milk beverages products to the distributors is made by those Mengniu Subsidiaries that manufacture the UHT milk and milk beverages products. In meeting delivery orders, there are occasionally shortfalls in the inventories of particular Mengniu Subsidiaries. Where this occurs the respective Mengniu Subsidiary purchases from Mengniu inventory to make up for the shortfalls. The products will be physically delivered to the particular Mengniu Subsidiary. These intra-group sales are part of the overall centralised sales system, and are booked for accounting and administrative purposes at the intra-group rate for UHT milk and milk beverages products.

An inventory adjustment agreement for an initial period of three years commencing 1 January 2004 ending 31 December 2006 has been entered into on 13 May 2004 by Mengniu, Mengniu Beijing, Mengniu Baotou, Mengniu Keerqin, Mengniu Wulanhaote, Mengniu Shanxi, Mengniu Taian, Mengniu Jiaozuo, Mengniu Shenyang, Mengniu Dengkou, Mengniu Tangshan and Mengniu Luannan. Mengniu and Mengniu Maanshan have entered into an inventory adjustment agreement dated 18 May 2005 for an initial period of three years. During the year, Mengniu Maanshan has not entered into such transaction.

4. Centralised yogurt product sales arrangement by Mengniu Beijing for the Group

The Group has implemented a centralised sales system for its yogurt products whereby all its yogurt products are centralised for sale and distribution to distributors by Mengniu Beijing. Pursuant to this system Mengniu and those Mengniu Subsidiaries which manufacture yogurt products sell their yogurt products to Mengniu Beijing who will, in turn, sell and invoice to distributors. These sales do not involve delivery to Mengniu Beijing as these transactions are operational transactions for the centralised sales system. All subsidiaries which produce yogurt products take part in this arrangement.

Mengniu, Mengniu Beijing, Mengniu Taian, Mengniu Jiaozuo, Mengniu Shenyang, Mengniu Luannan and Mengniu Tangshan have entered into a centralised sales agreement on 13 May 2004 for an initial period for three years commencing 1 January 2004 ending 31 December 2006. Mengniu Beijing and Mengniu Maanshan have entered into a centralised sales agreement dated 18 May 2005 for an initial period of three years. During the year, Mengniu Maanshan has not entered into such transaction.

5. Sales of yogurt products by Mengniu Beijing to the distributors within the Group for further distribution

As described above, Mengniu Beijing is the company in the Group responsible for dealing and liaising with external sales and distributors of its yogurt products. Yogurt products are sold by Mengniu Beijing to distributors, which include Mengniu Hongda, a distributor within the Group for the Beijing area. Mengniu Hongda predominantly handles sales administration and occasionally actual delivery of the yogurt products. Delivery is predominantly handled by Mengniu or the relevant Mengniu Subsidiaries which manufacture the yogurt products. Mengniu Beijing and Mengniu Hongda have entered into a distribution agreement on 13 May 2004 for an initial period of three years commencing 1 January 2004 ending 31 December 2006.

6. Transfer of yogurt products between Mengniu Beijing and certain Mengniu Subsidiaries for inventory adjustment purposes

As part of the centralised sales system described above, delivery of the yogurt products to the distributors is made by those companies in the Group which manufacture the yogurt products. In meeting delivery orders, it is anticipated there will be occasional shortfalls in the inventories of either Mengniu or the relevant Mengniu Subsidiaries. Where this occurs the respective company will purchase inventory from each other to make up for the shortfalls. These products will be physically delivered to the particular Mengniu Subsidiary. These intra-group sales are part of the overall centralised sales system and are booked for accounting and administrative purposes at an intra-group rate for yogurt products.

An inventory adjustment agreement has been entered into on 13 May 2004 for an initial period of three years commencing 1 January 2004 ending 31 December 2006 by Mengniu, Mengniu Beijing, Mengniu Baotou, Mengniu Keerqin, Mengniu Wulanhaote, Mengniu Shanxi, Mengniu Taian, Mengniu Jiaozuo, Mengniu Shenyang, Mengniu Dengkou, Mengniu Tangshan and Mengniu Luannan. Mengniu, Mengniu Maanshan and other Mengniu Subsidiaries have entered into an inventory adjustment agreement dated 18 May 2005 for an initial period of three years. During the year, Mengniu Maanshan has not entered into such transaction.

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7. Sales of ice cream products between Mengniu and certain Mengniu Subsidiaries for inventory adjustment purposes

As an inventory adjustment mechanism, Mengniu Dairy (Dangyang) Co., Ltd. (“Mengniu Dangyang”), Jinhua Mengniu Dairy Co., Ltd. (“Mengniu Jinhua”), Mengniu Jiaozuo, Mengniu Taian, Mengniu Shenyang and Mengniu (each of the above companies is a company incorporated in the PRC and an indirect non-wholly owned subsidiary of the Company) which manufacture ice cream products supply each other with finished ice cream products whenever shortages arise in another member. This inventory adjustment mechanism is beneficial for all parties involved as it minimises wastage and efficiently uses resources whilst permitting such companies to meet their respective market’s fluctuating demand for ice cream products.

An inventory adjustment agreement for an initial period ending 31 December 2006 has been entered into on 13 May 2004 by Mengniu Dangyang, Mengniu Jinhua, Mengniu, Mengniu Shenyang, Mengniu Jiaozuo and Mengniu Taian. Under the agreement, payment in full will be made by the transferee on a monthly basis for inventory adjustments that month.

8. Ongoing inventory adjustment of raw materials and production and packaging materials between Mengniu and Mengniu Subsidiaries

As an inventory adjustment mechanism, members of its Group transfer any excess raw materials (including, inter alia, sugar, oil etc.) and packaging materials to other members whenever shortages arise. Mengniu and all Mengniu Subsidiaries take part in this arrangement. This inventory adjustment mechanism is beneficial for all parties involved as it minimises wastage, and efficiently uses resources permitting companies to meet their respective market’s fluctuating demand.

Mengniu and all Mengniu Subsidiaries (except for Inner Mongolia Mengniu Founding Industry Management Co., Ltd. (“Mengniu Founding”), a company incorporated in the PRC and an indirect non-wholly owned subsidiary of the Company), have entered into an inventory adjustment agreement on 13 May 2004 for an initial period of three years commencing 1 January 2004 ending 31 December 2006.

9. Provision of guarantees by Mengniu to banking organisations for loans and credit facilities drawn by certain Mengniu Subsidiaries (provision of financial assistance to a connected person of the Company)

For the benefit of the Group as a whole, Mengniu, as the main operating subsidiary, provides guarantees to Mengniu Subsidiaries at nil consideration. These loans are required for the expansion of the Group, and out of necessity, Mengniu is required by the relevant banks to act as guarantor for its subsidiaries. From Mengniu Subsidiaries’ perspective, this continuing connected transaction represents financial assistance provided by Mengniu to the benefit of the Mengniu Subsidiaries, which are connected persons of the Company.

10. Sales of other dairy products by Mengniu to Mengniu Subsidiaries for inventory adjustment purposes

As disclosed above, as part of the centralised sales system of the other dairy products (including dairy products such as milk powder, milk tea powder and milk tablets), delivery of the other dairy products to the distributors is made by those Mengniu Subsidiaries that manufacture the other dairy products for logistical efficiency. In meeting delivery orders, there are occasionally shortfalls in the inventories of particular Mengniu Subsidiaries. Where this occurs, the respective Mengniu Subsidiary will purchase inventory from Mengniu to make up for the shortfalls. The products will be physically delivered to the particular Mengniu Subsidiary. These intra-group sales are part of the overall centralised sales system, and are booked for accounting and administrative purposes at an intra-group rate for other dairy products .

This inventory adjustment arrangement is covered by the Inventory Adjustment Agreement entered into by Mengniu and Mengniu Subsidiaries that are manufacturers of other dairy products on 25 November 2004. It is for an initial period commencing on the date of this agreement ending 31 December 2006. The companies in the Group involved are Mengniu, Mengniu Baotou, Mengniu Beijing, Mengniu Danyang, Mengniu Dengkou, Mengniu Jiaozuo, Mengniu Wulanhaote, Mengniu Jinhua, Mengniu Keerqin, Mengniu Luannan, Mengniu Shanxi, Mengniu Taian, Mengniu Shenyang and Mengniu Tangshan.

11. Sales of ice cream products amongst Mengniu, Mengniu Maanshan and other Mengniu Subsidiaries for inventory adjustment purposes

Upon the establishment of Mengniu Maanshan in May 2005, an inventory adjustment mechanism (similar to the one as discussed in paragraph 7 above) was set up amongst Mengniu, Mengniu Maanshan and those Mengniu Subsidiaries which manufacture ice cream products whereby they supply each other with finished ice cream products whenever shortages arise in another member.

Mengniu Maanshan, Mengniu, Mengniu Danyang, Mengniu Jinhua, Mengniu Shenyang, Mengniu Jiaozuo and Mengniu Taian entered into an inventory adjustment agreement on 18 May 2005 for an initial period commencing on the date of the agreement ending 31 December 2007. Under the agreement, the transferee shall make payment on a monthly basis for all orders made that month.

12. Ongoing inventory adjustment of raw materials and packaging materials amongst Mengniu, Mengniu Maanshan and other Mengniu subsidiaries

Upon the establishment of Mengniu Maanshan in May 2005, an inventory adjustment mechanism (similar to the one as discussed in paragraph 8 above) was set up amongst Mengniu, Mengniu Maanshan and other Mengniu Subsidiaries, under which certain raw materials are centrally purchased by Mengniu in order to enjoy the advantage of bulk purchase and then transferred by Mengniu to Mengniu Subsidiaries and excess raw materials and packaging materials are transferred to other members whenever shortages arise.

An inventory adjustment agreement for raw materials and packaging materials was entered into by Mengniu Maanshan, Mengniu and all other Mengniu Subsidiaries (except for Mengniu Founding) on 18 May 2005 for an initial period commencing on the date of this agreement ending 31 December 2007. Under the inventory adjustment agreement, the transferee makes payment on a monthly basis for all orders made that month.

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The Directors (including the independent non-executive Directors) are of the opinion that the connected transactions had been entered into and were carried out in the ordinary and usual course of business of the members of the Group and on normal commercial terms which are fair and reasonable so far as the interests of the shareholders of the Company are concerned, and the aggregate amount of the connected transactions did not exceed the caps as set out in the prospectus dated 1 June 2004 or in the announcements dated 25 November 2004 and 18 May 2005.

The Company has received from the auditors a letter reporting, on a sample test basis, that the connected transactions (i) have been approved by the board of directors of the Company; (ii) were entered into in accordance with the pricing policies of the Company; (iii) have been entered into in accordance with the relevant agreements governing the transaction; and have not exceeded the relevant caps as set out in the prospectus dated 1 June 2004 or in the announcements dated 25 November 2004 and 18 May 2005.

Saved as disclosed above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

Cessation of Mengniu and subsidiaries as connected persons

Subsequent to the year end, Mengniu and Mengniu Subsidiaries have ceased to be the Company's connected persons as a result of Mr Niu Gensheng's donation of part of his equity interest in Mengniu to an unconnected, social organisation, thereby reducing the collective voting power of the executive directors and the founding individuals to less than 10%. Details of Mr Niu Gensheng's donation have been disclosed in an announcement dated 7 February 2006.

Share Option Scheme

The Company adopted a share option scheme to provide incentives to the employees of the Group in June 2005. As at 31 December 2005, no option has been granted.

Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

Purchase, Sale or Redemption of the Company's Listed Shares

During the year ended 31 December 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Public Float

During the year and up to the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major Customers and Suppliers

The percentage of purchases attributable to the five largest suppliers of the Group combined was less than 30% of the total purchases of the Group.

The percentage of revenue attributable to the five largest customers of the Group combined was less than 30% of the total revenue of the Group.

Use of Listing Proceeds

During 2005, the unused listing proceeds of RMB180,000,000 as the beginning of the year had been fully utilised for the development and expansion of the production capacity of the Group.

Pledge of Assets

As at 31 December 2005, the Group pledged bank deposits, bills receivable and certain property, plant and equipment aggregating approximately RMB601,930,000 (2004: RMB458,760,000). Details are set out in respective notes to the financial statements.

Contingent Liabilities and Commitments

Details of contingent liabilities and commitments are set out in Notes 34 to 35 to the financial statements.

Subsequent Events

Details of subsequent events are set out in Note 39 to the financial statements.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last four periods is set out on page 95.

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Corporate Governance

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 18 to 25 of this Annual Report.

Auditors

The financial statements have been audited by Ernst & Young. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board of Directors

Niu Gensheng

Chief Executive Officer

Hong Kong, 10 April 2006