

CEO'S STATEMENT



104-Year Longing
of China





NIU Gensheng
Chief Executive Officer

Mengniu - Nature brings you much...

more nutrients, more vitality and a much better life

2006 was an important year in the development of China Mengniu Dairy Company Limited (the "Company") and its subsidiaries ("Mengniu" or the "Group"). At its tireless effort to improve its operations in the past seven years, the Group has earned both domestic and international recognition. I am pleased to announce that during the year under review, we continued to optimise our product mix through aggressive market segmentation and applying our leading product development capabilities. Our accurate and unique marketing and promotion strategy had won the hearts of consumers for different Mengniu products and accordingly seen us gain market share and deliver pleasing results.

Mengniu continued to expand its market share during the year and led the liquid milk market for the fourth consecutive year. Its ice cream products remained on top of the national bestseller list, a testament to its commitment to quality and the effectiveness of its marketing strategy. Mengniu has built a strong reputation for both its primary brand and secondary brands, securing for them the patronage of loyal customers.

Apart from striving to further grow its business, Mengniu also takes upon itself the mission of fostering a healthy nation and providing the Chinese people with flavourful and nutritious products. Our efforts to enhance product quality have been recognized. The Group's self-developed high-end milk product series, *Milk Deluxe* (特侖蘇), was presented the "2006 IDF Marketing Awards - New Product Development" by the International Dairy Federation ("IDF"). Mengniu is the first dairy enterprise of China to receive the honor in the 104 years' history of the IDF. Mengniu, however, is never complacent. It continued its quest for product excellence and, at its tireless research and development ("R&D") effort, succeeded in fortifying *Milk Deluxe* with osteoblast milk protein ("OMP"), which can facilitate absorption and retention of calcium by the body for repairing and building bones. The function of *Milk Deluxe OMP* in promoting bone density has been scientifically certified by the Center for Public Nutrition and Development of China. This is the proof of our ability to continually achieve fruitful R&D results.



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During the year, the Group also made significant advancement in establishing joint ventures and business alliance. We forged a corporate alliance with the Hong Kong Disneyland, an internationally renowned Theme Park, and became the Official Milk Sponsor and supplier for the Park and its two hotels. We also set up a joint venture with one of the most famous European dairy manufacturers, Arla Foods a.m.b.a. ("Arla Foods"), to produce and distribute high-quality milk powder and other dried dairy products. We announced the formation of joint ventures with Groupe Danone, the largest yogurt manufacturer in the world (in terms of sales volume), to engage in the production, development and distribution of yogurt products. Working in complement with these enterprises leading in their respective fields will see the Group enhance its competitive edges and develop dairy products with both cultural characters and internationally recognised quality. Mengniu will work hand-in-hand with its partners for advancement and to help nurture a stronger dairy industry and healthier people of the nation.

On the marketing and promotion front, we continued to actively launch creative and influential programs and activities to draw consumer attention. During the year under review, in addition to producing innovative prime time TV programs to highlight special features of products or appeal to specific consumer segments, we ventured beyond the traditional mass media platforms. We joined hands with Hong Kong Disneyland to introduce the "Drink Future Star - Win a fantasy trip to Hong Kong Disneyland" program that gave children and their families the opportunity to experience a joyful and fantastic visit to the world's famous theme park.

Our efforts in further developing our business and enhancing operational capabilities translated into satisfactory financial results during the year under

review. I am, therefore, pleased to present to shareholders the annual results of Mengniu for the year ended 31 December 2006.

With an outstanding product mix, innovative marketing strategy and constantly improving operation and production systems, the Group's revenue increased by a remarkable 50.1% to RMB16.246 billion, while net profit attributable to equity holders of the Company grew to RMB727.35 million. Basic earnings per share and diluted earnings per share were RMB0.532. The board of directors has resolved to recommend payment of a final dividend of RMB0.1094 per share for the year ended 31 December 2006.

All of the Group's products recorded pleasing sales. Our success in market development and product differentiation explained the increase in sales of liquid milk products. This main revenue generator of the Group accounted for 87.8% of the Group's revenue for the year, which is 53.1% higher than that in the previous year. Revenue from sales of ice cream, which grew a 40.3% during the year, made up 11.2% of the Group's revenue. Other dairy products brought in 1.0% of the Group's revenue, a 21.9% drop resulting from the restructuring of its business strategies and product mix in the second half of the year. We believe our other dairy products segment will have a bright future alongside the improving living standard in the country and rising demand for high-end formula milk powder, and with the support of the complementary capabilities of Mengniu and Arla Foods in marketing activities as well as in production and R&D.

Apart from making business achievements, we also enhanced the capability of new management and undertook in-depth review of our production and operation systems to improve our efficiencies. The



Group now has a more precise, centralized production and operation system to serve as a solid foundation for it to face and triumph over challenges in the dairy market.

In January 2006, Mr Yang Wenjun became the new Chief Executive Officer of our principal operating subsidiary, Inner Mongolia Mengniu Dairy (Group) Company Limited. With a visionary board, Mr Yang's profound industry experiences and the dedication and passion of the Mengniu team, the Group consolidated and enhanced its strengths during the year.

Looking forward, we are committed to taking the Group's business to new heights and expeditiously securing a place among the world's top 20 dairy manufacturers. To strengthen our leading position in the market, more resources will be directed into R&D and quality control. When our new R&D centre equipped with state-of-the-art technologies opens in 2007, we will be able to further integrate our R&D and quality control resources. We can combine premium raw milk supply and unique product formulae to develop more products to meet the fast-changing tastes and nutritional needs of consumers and lead the consumption trend. We will implement a series of tailored marketing strategies in 2007 to boost the sales of products in different markets and among different customer groups, with the aim of enlarging our market share and raising profitability. In the future, to effectively advance our business, we will continue to explore opportunities for forging new alliances with more renowned enterprises and at the same time foster closer cooperation and more comprehensive interaction with existing partners in different aspects.

The support from the country and the community has been pivotal to Mengniu's development and achievements over the years. To give back to the

community, Mengniu launched a one-year milk sponsorship program in June 2006 covering 500 schools in impoverished areas of China. Students of those schools can now drink Mengniu milk everyday to promote their health and growth.

A pack of milk is within easy access for children living in the city, but it is a rare and precious gift for youngsters living in remote areas. For Mengniu's delivery staff, there is nothing more moving than the smile the pack of Mengniu milk brings to those young faces. This effort, though small, represents our regards and care for the country and its future masters. I hope our small effort will have a rippling effect and ignite compassion of the community for the underprivileged among us, motivating people to give back to the community and join hands in contributing to the growth and development of the nation. Mengniu will continue to honour its responsibilities to the community as a good corporate citizen, and contribute its best in assisting the development of the dairy industry in China in the years to come.

I am pleased to see Mengniu deliver pleasing results. However, I am convinced that if we have not had the support from different parties since the first day of our establishment, we would not have performed as brilliantly. Apart from expressing my heartfelt gratitude to all shareholders, customers and business partners for their support, my thanks also go to our very competent and dedicated board members, management team and employees. I am confident that we - the Mengniu team - will continue to bring yet more satisfying returns to our shareholders.

NIU Gensheng

Chief Executive Officer

Hong Kong, 12 April 2007

