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## China Mengniu Dairy Company Limited

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 2319)

### EARLY TERMINATION OF THE VALUATION ADJUSTMENT MECHANISM

The Company has been informed by MS Dairy Holdings ("**MS Dairy**"), CDH China Fund, L.P. ("**CDH**"), and Actis China Investment Company Limited ("**Actis**") (together, the "**Financial Investors**") and Jinniu Milk Industry Limited ("**Jinniu**"), that, due to the Company having achieved outstanding business performance and earnings growth, the Financial Investors have offered to transfer their shareholding interests in the Company held in the form of convertible instruments representing the principal amount of US\$5,987,644 to Jinniu (the "**Transfer**") in consideration for the early termination of the valuation adjustment mechanism ("**VAM**") contained in a shareholders' agreement entered into between the parties dated 14 May 2004 (the "**2004 Agreement**"). The parties have entered into a termination agreement dated 6 April 2005 (the "**Termination Agreement**") setting out the terms of the Transfer and termination of the VAM. The Termination Agreement is conditional upon the obtaining of the consent from (1) the underwriters (the "**Hong Kong Underwriters**") under the Hong Kong underwriting agreement dated 31 May 2004 (the "**HK Underwriting Agreement**") between, inter alia, the Company, Jinniu, the Financial Investors and the Hong Kong Underwriters and (2) the underwriters (the "**International Underwriters**") under the International purchase agreement dated 5 June 2004 (the "**International Purchase Agreement**") between, inter alia, the Company, Jinniu, the Financial Investors and the International Underwriters.

#### The 2004 Agreement

Pursuant to the 2004 Agreement, MS Dairy, CDH and Actis agreed to adjust their respective shareholding in the Company by way of transfer of shares of the Company (the "**Shares**"), either from Jinniu to the Financial Investors, or vice versa, after the financial year end of 2006. The number of Shares which were to be transferred are based on pre-determined earnings hurdles achieved by the Company and its subsidiaries (the "**Group**") for the fiscal year of 2005 (the "**2005 Adjustment**") and 2006 (the "**2006 Adjustment**"). The pre-determined hurdles are generally dependent on the Group's compounded annual growth rate over the three-year period ending 31 December 2005 and 31 December 2006 respectively. The 2004 Agreement had contemplated that the net share adjustment in aggregate shall in no event result in a transfer of more than approximately 78.3 million Shares between Jinniu and the Financial Investors.

#### The Termination Agreement

Due to the consistent and exceptional performance of the Company, each of MS Dairy, CDH and Actis has offered to transfer its shareholding interests in the Company to Jinniu, in the form of convertible instruments representing the total principal amount of US\$3,995,661, US\$1,267,829 and US\$724,154 which are convertible into approximately 41,777,465 Shares, 13,261,030 Shares and 7,570,273 Shares, representing 3.1%, 1.0% and 0.6% of the issued share capital of the Company respectively, assuming all the convertible instruments have been converted into ordinary shares of the Company, in consideration for the early termination of the VAM as set out in the 2004 Agreement.

The terms of the termination of the VAM and Transfer are contained in the Agreement entered into by the parties on 6 April 2005. The Financial Investors are currently subject to the lock-up provisions contained in the HK Underwriting Agreement and the International Purchase Agreement as disclosed in the section headed "Underwriting" in the prospectus of the Company dated 1 June 2004 (the "**Lock-up Provisions**"). As a result, completion of the Termination Agreement is conditional upon the obtaining of the consent from (1) the Hong Kong Underwriters under the HK Underwriting Agreement and (2) the International Underwriters under the International Purchase Agreement.

Subject to such consents being obtained, the Transfer is expected to be completed on 13 April 2005. Upon completion, Jinniu will be the holder of convertible instruments which are subject to the same terms and conditions as the convertible instruments held by the Financial Investors, representing the principal amount of US\$5,987,644, representing 4.6% of the issued share capital of the Company, assuming all the convertible instruments have been converted into ordinary shares of the Company. Currently, Jinniu holds 158,344,007 shares in the Company, representing approximately 11.6% of the issued share capital of the Company, assuming all the convertible instruments have been converted into ordinary shares of the Company.

Subsequent to the completion of the Transfer, each of MS Dairy, CDH and Actis shall be holder of the remainder of convertible instruments representing the principal amount of US\$12,462,836, US\$3,954,768 and US\$2,258,431, representing 9.5%, 3.0% and 1.7% of the issued share capital of the Company, assuming all the convertible instruments have been converted into Shares of the Company. Under the terms of the convertible instruments, Jinniu may exercise the right to convert after 10 June 2005.

By Order of the Board  
**Lo Ka Wai, Claudia**  
Company Secretary

Hong Kong, 6 April 2005

*As at the date of this announcement, the executive directors are Mr Niu Gensheng, Ms Lu Jun, Mr Sun Yubin and Mr Yang Wenjun. The non-executive directors are Mr Jiao Shuge (alias Jiao Zhen), Ms Jin Yujuan, Lily and Mr Liu Haifeng, David. The independent non-executive directors are Mr. Li Jianxin, Mr. Wang Huaibao, and Mr. Zhang Julin.*