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## China Mengniu Dairy Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

### FRAMEWORK AGREEMENT BETWEEN MENGNIU AND ARLA FOODS

The Board is pleased to announce that on 25 August 2005, Mengniu entered into a Framework Agreement with Arla Foods in relation to the establishment of a JV Company with a view to engage in the production, sale and distribution of milk powder and other solid milk products in the Greater China Region and any other countries as agreed by both parties.

This announcement is made pursuant to Rule 13.09(1) of the Listing Rules.

The board of directors (the **"Board"**) of China Mengniu Dairy Company Limited (the **"Company"**) is pleased to announce that on 25 August 2005, the Company's principal operating subsidiary, Inner Mongolia Mengniu Milk Industry (Group) Co., Ltd. (**"Mengniu"**) entered into a framework agreement (the **"Framework Agreement"**) with Arla Foods a/s (**"Arla Foods"**), a limited liability company incorporated in Denmark, for the establishment of a joint venture company (the **"JV Company"**). Arla Foods is not a connected person (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (**"Listing Rules"**)) of the Company. This announcement is made pursuant to rule 13.09(1) of the Listing Rules.

#### Framework Agreement

##### Date:

25 August 2005

##### Parties:

Mengniu, the principal operating subsidiary of the Company, is one of the largest dairy product manufacturers in China.

Arla Foods, a limited liability company incorporated in Denmark, is the largest dairy product manufacturer in terms of turnover in Europe. Arla Foods has over 70 production plants and its products are sold in more than 120 countries in the world.

##### Proposed terms:

Pursuant to the Framework Agreement, Mengniu and Arla Foods intend to enter into a Sino-foreign equity joint venture agreement (the **"JV Agreement"**) with a view to engage in the production, sale and distribution of milk powder and other solid milk products in Mainland China, the Hong Kong Special Administrative Region and the Macau Special Administrative Region (the **"Greater China Region"**) and any other countries as agreed by both parties. In addition, the JV Company intends to market, sell and distribute high-quality milk powder products produced by Arla Foods outside the Greater China Region through the JV Company in the Greater China Region.

The total investment of the JV Company will be RMB540 million (equivalent to approximately HK\$518 million) and it will have a registered capital of RMB180 million (equivalent to approximately HK\$173 million). It is intended that the JV Company will be owned as to 51% by Mengniu and as to 49% by Arla Foods. Mengniu will make its contribution in kind which includes (but are not limited to) fixed assets and its goodwill whereas Arla Foods will make its contribution in cash.

The JV Agreement will become effective upon obtaining the approval from the Ministry of Commerce. The term of operation of the JV is proposed to be fifty years commencing from the date of its incorporation. Mengniu and Arla Foods intend to enter into the formal JV Agreement on or before 1 October 2005. The board of directors of the JV will be composed of six directors. Mengniu shall appoint three directors including the chairman of the board and Arla Foods shall appoint the other three directors. Arla Foods will also have the right to appoint the chief executive officer and chief financial officer of the JV Company.

##### General:

The material terms of the Framework Agreement are non-binding to both parties. The final terms of the JV Agreement are subject to further negotiation and agreement between Mengniu and Arla Foods. As the Framework Agreement is subject to a number of conditions precedent, the Board will make appropriate announcement when all the condition precedent have been satisfied and will keep the market informed of the development with regard to the proposed joint venture with Arla Foods in accordance with the requirements of the Listing Rules.

By order of the Board  
Lo Ka Wai, Claudia  
Company Secretary

Hong Kong, 25 August 2005

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

In this announcement, the exchange rate of RMB1.042 to HK\$1 is used.