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China Mengniu Dairy Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

DRIED DAIRY PRODUCTS JOINT VENTURE BETWEEN MENGNIU AND ARLA FOODS

The Board is pleased to announce that Mengniu and Arla Foods have finalised the terms of an equity joint venture in Dried Dairy Products. On 18 May 2006, a Joint Venture Contract was entered into for the establishment of a JV Company to engage in the production, sale and distribution of milk powder and other solid milk products in Greater China and such other markets as may be agreed between Mengniu and Arla Foods.

This announcement is made pursuant to rule 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The board of directors (the “**Board**”) of China Mengniu Dairy Company Limited (the “**Company**”) refers to the Company’s announcement dated 25 August 2005 regarding the framework agreement entered into for the purpose of establishing a joint venture company between the Company’s principal operating subsidiary, Inner Mongolia Mengniu Dairy (Group) Company Limited (“**Mengniu**”), and Arla Foods amba (“**Arla Foods**”), a cooperative with limited liability established in Denmark, and is pleased to announce that Mengniu, Arla Foods, together with Arla Foods Ingredients amba (“**AFI**”) and Huijin (Hohhot) Real Estate Investment Consulting Company Limited (“**Huijin**”) (the “**Parties**”), have entered into a joint venture contract (the “**Joint Venture Contract**”) for the establishment of a 50-year sino-foreign equity joint venture (the “**JV Company**”) for the production, sale and distribution of milk powder and other solid milk products (“**Dried Dairy Products**”) in China, Hong Kong and Macau (“**Greater China**”) and such other markets as may be agreed between Mengniu and Arla Foods.

Joint Venture Contract

The parties to the Joint Venture Contract are as follows:

- (1) Mengniu, the principal operating subsidiary of the Company, is one of the largest dairy products manufacturers in China;
- (2) Arla Foods, a cooperative with limited liability established in Denmark, is one of the largest dairy products manufacturers in Europe in terms of turnover;
- (3) AFI, a cooperative with limited liability established in Denmark, is wholly owned by Arla Foods; and
- (4) Huijin, a limited liability company incorporated in China.

Mengniu is a non-wholly owned subsidiary of the Company. To the best knowledge of the Board, Arla Foods, AFI, Huijin and their respective ultimate beneficial owners are independent of and not connected with the connected person (as defined under the Listing Rules) of the Company.

The total investment and registered capital of the JV Company is RMB540 million (equivalent to approximately HK\$522.2 million) and RMB180 million (equivalent to approximately HK\$174.1 million) respectively. Any difference between the total investment and the registered capital may be borrowed from the Parties in proportion to their respective equity interest in the JV Company. The JV Company will be owned as to 50% by Mengniu, 48% by Arla Foods, 1% by AFI and 1% by Huijin. Mengniu’s contribution will consist of, inter alia, fixed assets; technology and information which relates to the production of the Dried Dairy Products; and the assignment and licensing of various trademarks. The contribution of Arla Foods, AFI and Huijin will be in the form of cash. Other than the proposed guarantee to be provided by Mengniu and Arla Foods in proportion to their respective equity interest in the JV Company to secure the JV Company’s proposed financing of RMB110 million (equivalent to approximately HK\$106.4 million), there is no other capital commitment from Mengniu.

The board of directors of the JV Company has six directors. Mengniu will appoint two directors (including the chairman and a vice-chairman of the board) and Arla Foods will appoint two directors (including a vice-chairman). AFI and Huijin will each appoint one director.

The Joint Venture Contract will become effective upon, inter alia, obtaining the approval locally from the competent authority for commercial affairs. The initial term of the joint venture is 50 years commencing from the date of incorporation of the JV Company, with extension to be agreed among the Parties.

Auxiliary Contracts

In connection with the establishment of the joint venture, the JV Company, Mengniu, Arla Foods and the other Parties will, for the purpose of the joint venture, enter into a number of auxiliary contracts for inter alia, supply of milk and dried dairy products, trademarks assignment and licensing, technology transfer, technical assistance and common facilities sharing arrangements. The Company will comply with the Listing Rules applicable to the Company in relation to such auxiliary contracts.

This is the first cooperation between Mengniu and a foreign enterprise and the Board is pleased to see such cooperative opportunity being materialised. The Board looks forward to a fruitful cooperation between the Parties.

By order of the Board
Yang Wenjun
Director

Hong Kong, 18 May 2006

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) and Mr. Julian Juul Wolhardt. The Independent Non-executive Directors are Mr. Wang Huaibao, Mr. Zhang Julin and Mr. Li Jianxin.

In this announcement, the exchange rate of RMB1.034 to HK\$1 is used.