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CHINA MENGNIU DAIRY COMPANY LIMITED

中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

FINANCIAL HIGHLIGHTS

For the year ended 31 December	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Revenue	25,710,460	23,864,975
Net profit/(loss) attributable to owners of the Company	1,115,799	(948,600)
Net cash flows from operating activities	2,131,571	586,880
Basic earnings per share (<i>RMB</i>)	0.681	(0.639)
Proposed final dividend per share (<i>RMB</i>)	0.1413	–

- The Group has further improved its functional high-end dairy product mix and enhanced the basic products' in terms of packaging and flavor. Revenue during the year increased by 7.7% to RMB25,710.5 million. The net profit attributable to owners of the Company was RMB1,115.8 million.
- The Group's aggregate annual production capacity reached 5.76 million tonnes in December 2009.
- According to the information issued by China Industrial Information Issuing Centre under the National Bureau of Statistics of China, the Group's dairy products ranked first, in terms of both sales volume and revenue, among similar products in the market in China in 2009. In addition, according to the information issued by China National Commercial Information Centre under the China General Chamber of Commerce, the Group's liquid milk ranked first in terms of consolidated market share of similar products in China in 2009.
- In 2009, Mengniu also ranked 19th in the Global Dairy Top 20 and became the first Chinese dairy company among the world's top 20 dairy companies.
- In July 2009, the Group successfully secured capital injection from COFCO Limited, the largest oil and food enterprise in China, and Hopu Investment Management Co., Ltd., a well-known private equity investment fund. This enables Mengniu to gain industry experience, enhance global customer network and benefit from resources sharing and support in developing its food safety control system.

The board (the “Board”) of directors (the “Directors”) of China Mengniu Dairy Company Limited (the “Company”) is pleased to present the audited results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2009, together with the comparative amounts.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CONTINUING OPERATIONS			
REVENUE	3	25,710,460	23,864,975
Cost of sales		<u>(18,858,229)</u>	<u>(19,195,576)</u>
GROSS PROFIT		6,852,231	4,669,399
Other income and gains		80,959	122,654
Selling and distribution costs		(4,653,460)	(4,428,027)
Administrative expenses		(863,750)	(622,162)
Other operating expenses		(113,045)	(876,033)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		1,302,935	(1,134,169)
Interest income		85,042	54,841
Finance costs	5	(61,153)	(39,394)
Share of profits and losses of associates		19,522	29,447
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	4	1,346,346	(1,089,275)
Income tax income/(expense)	6	(126,240)	161,454
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		1,220,106	(927,821)
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation		–	3,357
PROFIT/(LOSS) FOR THE YEAR		1,220,106	(924,464)
Attributable to:			
Owners of the Company		1,115,799	(948,600)
Non-controlling interests		104,307	24,136
		1,220,106	(924,464)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY (EXPRESSED IN RMB PER SHARE)			
Basic	8		
– For profit/(loss) for the year		0.681	(0.639)
– For profit/(loss) from continuing operations		0.681	(0.641)
– For profit from a discontinued operation		N/A	0.002
Diluted			
– For profit for the year		N/A	N/A
– For profit from continuing operations		N/A	N/A
– For profit from a discontinued operation		N/A	0.002

Details of the dividends payable and proposed for the year are disclosed in note 7 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 31 December 2009*

	<i>Notes</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		4,919,608	5,247,072
Construction in progress		326,679	215,017
Land use rights		367,191	256,524
Goodwill		199,143	199,143
Other intangible assets		31,637	32,667
Interests in associates		67,383	40,107
Available-for-sale investments		17,409	18,029
Deferred tax assets		131,741	186,881
Other financial assets		20,868	18,333
		6,081,659	6,213,773
CURRENT ASSETS			
Inventories		714,897	824,453
Bills receivable	<i>9</i>	52,449	64,778
Trade receivables	<i>10</i>	527,303	284,079
Prepayments and deposits		272,627	374,904
Other receivables		66,202	90,679
Pledged deposits		230,968	41,693
Cash and bank balances		6,150,021	3,041,965
		8,014,467	4,722,551
Assets of a disposal group classified as held for sale		–	378,951
		8,014,467	5,101,502
CURRENT LIABILITIES			
Trade payables	<i>11</i>	1,531,366	2,155,265
Bills payable	<i>12</i>	808,409	239,345
Deferred income		13,162	12,918
Accruals and customers' deposits		559,291	745,535
Other payables		1,211,172	1,048,792
Interest-bearing bank loans		323,593	1,208,660
Other loans		106,947	72,942
		4,553,940	5,483,457
Liabilities directly associated with assets classified as held for sale		–	282,649
		4,553,940	5,766,106
NET CURRENT ASSETS/(LIABILITIES)		3,460,527	(664,604)
TOTAL ASSETS LESS CURRENT LIABILITIES		9,542,186	5,549,169

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	350,000	520,000
Long term payables	49,879	107,988
Deferred income	230,613	183,210
	<u>630,492</u>	<u>811,198</u>
NET ASSETS	<u>8,911,694</u>	<u>4,737,971</u>
EQUITY		
Equity attributable to owners of the Company		
Issued capital	178,611	163,137
Retained earnings	1,294,766	363,555
Other reserves	7,102,301	3,937,924
	<u>8,575,678</u>	<u>4,464,616</u>
Non-controlling interests	336,016	273,355
TOTAL EQUITY	<u>8,911,694</u>	<u>4,737,971</u>

NOTES:

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands. The Company is an investment holding company and its subsidiaries are engaged in the manufacture and distribution of dairy products mainly in the People's Republic of China (the "PRC").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. They are prepared on a historical cost basis except for share options which have been measured at fair value. They are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the day that such control ceases.

Non-controlling interests are the equity in subsidiaries not attributable, directly or indirectly, to the Company. An acquisition of non-controlling interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

2.2 IMPACT OF NEW AND REVISED IFRSS

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 <i>First-time Adoption of IFRSs</i> and IAS 27 <i>Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
IFRS 2 Amendments	Amendments to IFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments</i>
IFRS 8	<i>Operating Segments</i>
IFRS 8 Amendment*	Amendment to IFRS 8 <i>Operating Segments – Disclosure of information about segment assets (early adopted)</i>
IAS 1 (Revised)	<i>Presentation of Financial Statements</i>
IAS 18 Amendment*	Amendment to Appendix to IAS 18 <i>Revenue – Determining whether an entity is acting as a principal or as an agent</i>
IAS 23 (Revised)	<i>Borrowing Costs</i>
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation</i> and IAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 <i>Reassessment of Embedded Derivatives</i> and IAS 39 <i>Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
IFRIC 13	<i>Customer Loyalty Programmes</i>
IFRIC 15	<i>Agreements for the Construction of Real Estate</i>
IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
IFRIC 18	<i>Transfers of Assets from Customers</i> (adopted from 1 July 2009)
Improvements to IFRSs (May 2008)	Amendments to a number of IFRSs

* Included in *Improvements to IFRSs 2009* (as issued in April 2009).

Other than further explained below, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

(a) IFRS 8 *Operating Segments*

IFRS 8, which replaces IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. Adoption of this standard did not have any effect on the financial position or performance of the Group.

The Group has early adopted in these financial statements the Amendment to IFRS 8 issued in *Improvements to IFRSs 2009* which clarifies that segment assets need only to be reported when those assets are included in measures that are used by the chief decision maker.

(b) IAS 1 (Revised) *Presentation of Financial Statements*

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(c) In May 2008, the IASB issued its first *Improvements to IFRSs* which sets out amendments to a number of IFRSs except for the amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* which are effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

- IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: Requires government loans granted in the future with no or at a below-market rate of interest to be recognized and measured in accordance with IAS 39 and the benefit of the reduced interest to be accounted for as a government grant. In accordance with the transitional provisions of the amendment, the Group adopted the amendment prospectively to government loans received on or after 1 January 2009. Interest is now imputed on government loans with below-market interest rates. During the year, the Group received such loans amounting to RMB48,565,000, whose carrying value as at 31 December 2009 approximated the fair value of the loans at initial recognition.
- IAS 28 *Investments in Associates*: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.
- IAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate “fair value less costs to sell”, additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate “value in use”.
- IAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

3. REVENUE AND OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- Liquid milk products segment – manufacture and distribution of ultra-high temperature milk (“UHT milk”), milk beverages and yogurt;
- Ice cream products segment – manufacture and distribution of ice cream; and
- Other dairy products segment – mainly manufacture and distribution of milk powder.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group’s profit/(loss) before tax from continuing operations except that interest income, finance costs, dividend income, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude equity investments at cost and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

A discontinued operation which is principally engaged in raising milk cows and supplying raw milk is presented separately in the consolidated income statement as an one-line item “Profit for the year from a discontinued operation”. Assets and liabilities related to the discontinued operation are shown separately in the consolidated statement of financial position as “Assets of a disposal group classified as held for sale” and “Liabilities directly associated with assets classified as held for sale”.

Year ended 31 December 2009	Liquid milk products RMB'000	Ice cream products RMB'000	Other dairy products RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	22,736,162	2,685,056	289,242	25,710,460
Intersegment sales	61,408	16,115	4,633	82,156
	<u>22,797,570</u>	<u>2,701,171</u>	<u>293,875</u>	<u>25,792,616</u>
Reconciliation:				
Elimination of intersegment sales				<u>(82,156)</u>
Revenue from continuing operations				<u><u>25,710,460</u></u>
Segment results	1,648,996	29,149	(11,901)	1,666,244
Interest income				85,042
Finance costs				(61,153)
Share of profits and losses of associates				19,522
Unallocated corporate expenses				<u>(363,309)</u>
Profit before tax from continuing operations				1,346,346
Income tax expense				<u>(126,240)</u>
Profit for the year from continuing operations				<u><u>1,220,106</u></u>
Segment assets	8,398,855	1,172,153	336,725	9,907,733
Reconciliation:				
Elimination of intersegment receivables				(2,870,958)
Unallocated corporate assets				<u>7,059,351</u>
Total assets				<u><u>14,096,126</u></u>
Segment liabilities	5,139,046	766,052	216,681	6,121,779
Reconciliation:				
Elimination of intersegment payables				(2,870,958)
Unallocated corporate liabilities				<u>1,933,611</u>
Total liabilities				<u><u>5,184,432</u></u>

Year ended 31 December 2009	Liquid milk products <i>RMB'000</i>	Ice cream products <i>RMB'000</i>	Other dairy products <i>RMB'000</i>	Total <i>RMB'000</i>
Other segment information:				
Depreciation and amortisation Unallocated amounts	530,942	87,577	22,357	640,876 <u>34,522</u>
Total depreciation and amortisation				675,398
Capital expenditure Unallocated amounts	556,128	16,049	11,913	584,090 <u>56,115</u>
Total capital expenditure				640,205*
Impairment losses recognized in the income statement	15,631	233	1,149	17,013
Other non-cash expenses Unallocated amounts	110,786	26,419	4,063	141,268 <u>143,378</u>
Total non-cash expenses				301,659

* Capital expenditure consists of additions to property, plant and equipment, construction in progress, intangible assets, land use right, and assets from the acquisition of associates and subsidiaries.

Year ended 31 December 2008	Liquid milk products <i>RMB'000</i>	Ice cream products <i>RMB'000</i>	Other dairy products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:				
Sales to external customers	21,068,097	2,626,515	170,363	23,864,975
Intersegment sales	<u>214,891</u>	<u>52,308</u>	<u>11,460</u>	<u>278,659</u>
	21,282,988	2,678,823	181,823	24,143,634
Reconciliation: Elimination of intersegment sales				<u>(278,659)</u>
Revenue from continuing operations				23,864,975
Segment results	(602,165)	(219,514)	(90,760)	(912,439)
Interest income				54,841
Finance costs				(39,394)
Share of profits and losses of associates				29,447
Unallocated corporate expenses				<u>(221,730)</u>
Loss before tax from continuing operations				(1,089,275)
Income tax income				<u>161,454</u>
Loss for the year from continuing operations				(927,821)
Segment assets	7,635,614	1,124,542	343,669	9,103,825
Reconciliation: Elimination of intersegment receivables				(1,776,719)
Unallocated corporate assets				<u>3,609,218</u>
Total assets				10,936,324
Segment liabilities	4,646,734	664,541	256,434	5,567,709
Reconciliation: Elimination of intersegment payables				(1,776,719)
Unallocated corporate liabilities				<u>2,503,665</u>
Total liabilities				6,294,655

Year ended 31 December 2008	Liquid milk products RMB'000	Ice cream products RMB'000	Other dairy products RMB'000	Total RMB'000
Other segment information:				
Depreciation and amortisation	510,425	93,382	7,822	611,629
Unallocated amounts				28,071
Total depreciation and amortisation				<u>639,700</u>
Capital expenditure	717,945	26,474	31,663	776,082
Unallocated amounts				25,110
Total capital expenditure				<u>801,192</u>
Impairment losses recognized/(reversed) in the income statement	177,843	1,650	(1,331)	178,162
Other non-cash expenses	55,711	11,287	800	67,798
Unallocated amounts				66,824
Total non-cash expenses				<u>312,784</u>

Geographical information

(a) Revenue from external customers

Above 90% of the revenue from continuing operations is contributed by the customers of Mainland China.

(b) Non-current assets

Above 90% of the Group's non-current assets are located in Mainland China.

4. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax from continuing operations is arrived at after charging/(crediting):

	2009 RMB'000	2008 RMB'000
Cost of inventories sold	18,858,229	19,195,576
Employee benefit expense (excluding directors' remuneration)		
– Wages, salaries, housing benefits and other allowances	1,021,717	889,211
– Retirement benefit contributions	71,695	68,503
– Share-based payment expense	223,902	105,441
	<u>1,317,314</u>	<u>1,063,155</u>
Depreciation of property, plant and equipment	663,863	630,046
Loss on disposal of items of property, plant and equipment	7,834	6,227
Amortisation of land use rights	7,231	5,604
Amortisation of other intangible assets	4,304	4,050
Research and development costs – current year expenditure	42,158	29,684
Provision/(write-back of provision) for trade receivables and other receivables	15,980	(1,711)
Minimum lease payments under operating leases on buildings and certain production equipment	222,429	212,913
Display space leasing fees	172,306	273,804
Auditors' remuneration	3,790	3,785
	<u>3,790</u>	<u>3,785</u>

5. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Interest on long term payables	10,543	16,505
Interest on bank loans wholly repayable within five years	50,610	26,796
Less: Amounts capitalised	—	(3,907)
	61,153	39,394

The amounts capitalised are the borrowing costs related to funds borrowed specifically for the purpose of obtaining qualifying assets. The interest rate on such capitalised borrowings during 2008 was 5.96% per annum.

6. INCOME TAX (INCOME)/EXPENSE

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year. The tax charge represents the provision for the PRC corporate income tax (“CIT”) and deferred tax for the year.

Under the PRC income tax law, except for certain preferential treatment available to twenty-one (2008: twenty-two) of the Group’s subsidiaries and a jointly controlled entity, the entities within the Group are subject to CIT at a rate of 25% (2008: 25%) on the taxable income as reported in their statutory accounts which are prepared in accordance with the PRC accounting standards and financial regulations.

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Current income tax		
Current income tax charge	71,100	19,125
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences	55,140	(180,579)
	126,240	(161,454)

A reconciliation of the income tax (income)/expense applicable to profit/(loss) before tax at the statutory income tax rate to the income tax (income)/expense at the Group’s effective income tax rate for the year is as follows:

	<i>Notes</i>	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Profit/(loss) before tax from continuing operations		1,346,346	(1,089,275)
At CIT rate of 25% (2008: 25%)		336,587	(272,319)
Non-deductible items and others, net		63,888	26,450
Adjustment recognised in the year for current tax of prior years		1,017	3,819
Effect of preferential tax rates	(a)	(173,623)	150,658
Effect on tax exemptions	(a)	(55,432)	(89,990)
Tax losses not recognised		1,092	19,928
Utilisation of previously unrecognised tax credits		(47,289)	—
At the effective income tax rate of 9.4% (2008: 14.8%)		126,240	(161,454)

Notes:

- (a) Twenty-one (2008: twenty-two) subsidiaries and a jointly controlled entity were subject to tax concessions in 2009. The total taxable profits of the subsidiaries that are subject to tax concessions amounted to approximately RMB792,749,000 (2008: deductible loss of RMB719,771,000) in aggregate. Out of the twenty-one subsidiaries, sixteen (2008: nineteen) plus the jointly controlled entity were granted tax concessions by the state tax bureau in accordance with the New Tax Law and the corresponding transitional tax concession policy and “The notice of preferential tax policies for companies located in West China”. Five (2008: three) subsidiaries were granted tax concessions in accordance with the policy of “The notice of preferential tax policy for preliminary processing of agriculture products”.
- (b) The share of tax attributable to associates amounting to approximately RMB8,178,000 (2008: RMB5,549,000) is included in the share of profits and losses of associates on the face of the consolidated income statement.

7. DIVIDENDS

	<i>Notes</i>	2009 RMB'000	2008 <i>RMB'000</i>
<i>Declared and paid during the year</i>			
Equity dividends on ordinary shares		<u>–</u>	<u>187,667</u>
<i>Proposed for approval at the AGM</i>			
Equity dividends on ordinary shares:			
Proposed final – 0.1413 (2008: Nil) per ordinary share	<i>(a)/(b)</i>	<u>245,465</u>	<u>–</u>

Notes:

- (a) The proposed final dividend for the year is subject to the approval of the Company’s shareholders at the forthcoming Annual General Meeting (the “AGM”). Such dividend was not recognised as a liability in the consolidated financial statements as at 31 December 2009 but was reflected as an appropriation of retained earnings for the year ending 31 December 2010.
- (b) The proposed final dividend for the year is appropriated from the undistributed profit earned before 1 January 2008.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY

The basic earnings per share for the year is calculated by dividing the profit/(loss) for the year attributable to ordinary owners of the Company by the weighted average number of ordinary shares outstanding during the year.

The diluted earnings per share was calculated by dividing the profit/(loss) for the year attributable to ordinary owners of the Company by the weighted average number of ordinary shares in issue during that year, as used in the basic earnings per share calculation; and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year pursuant to contingent ordinary share provision in IAS 33 Earnings per Share.

The share options outstanding had no dilutive effect on the calculation of diluted earnings per share for 2009.

Diluted loss per share for loss for the year and for loss from continuing operations for the year ended 31 December 2008 have not been disclosed as the deemed exercise of share options during 2008 had an anti-dilutive effect on the basic loss per share.

The calculations of basic and diluted earnings per share are based on:

Earnings

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Profit/(loss) attributable to ordinary owners of the Company:		
From continuing operations	1,115,799	(951,957)
From a discontinued operation	—	3,357
	<u>1,115,799</u>	<u>(948,600)</u>

Shares

	2009 Number of Shares <i>'000</i>	2008 Number of Shares <i>'000</i>
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	1,637,304	1,485,403
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the year	—	35
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	<u>1,637,304</u>	<u>1,485,438</u>

9. BILLS RECEIVABLE

An aged analysis of the bills receivable as at the end of the reporting period, based on the invoice date, is as follows:

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Within 3 months	51,949	64,678
4 to 6 months	500	100
	<u>52,449</u>	<u>64,778</u>

10. TRADE RECEIVABLES

The Group normally allows a credit period of not more than 30 days to its customers which is extendable in certain circumstances. The Group closely monitors overdue balances. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The trade receivables are non-interest-bearing.

An aged analysis of the trade receivables of the Group, net of provision for doubtful debts, based on the invoice date, is as follows:

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Within 3 months	471,122	251,774
4 to 6 months	46,112	25,587
7 to 12 months	7,243	5,716
Over 1 year	2,826	1,002
	<u>527,303</u>	<u>284,079</u>

11. TRADE PAYABLES

An aged analysis of the trade payables of the Group, based on the invoice date, is as follows:

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Within 3 months	1,463,848	2,033,138
4 to 6 months	63,708	112,082
7 to 12 months	2,868	8,289
Over 1 year	942	1,756
	1,531,366	2,155,265

12. BILLS PAYABLE

An aged analysis of the bills payable of the Group, based on the invoice date, is as follows:

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Within 3 months	712,105	239,145
4 to 6 months	96,304	200
	808,409	239,345

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

In the context of concurrent maturing and the expansion of China dairy products market, the Group's strategy of enriching its high-end product portfolio together with increasing active marketing activities was fully validated throughout the year. During the year under review, revenue of the Group amounted to RMB25,710.5 million, representing a satisfactory increase of 7.7% as compared with RMB23,865 million in 2008. Net profit attributable to owners of the Company was RMB1,115.8 million (2008: net loss of RMB948.6 million). Basic earnings per share were RMB0.681 (basic loss per share for 2008: RMB0.639).

Gross Profit

During the year under review, the Group recorded a gross profit of RMB6,852.2 million, representing a surge of 46.7% as compared with RMB4,669.4 million in 2008. The overall gross profit margin for the year increased to 26.7% (2008: 19.6%), contributed by the recovery of sales, the increased portion of revenue derived from high-end functional products, optimisation of product portfolios, and more stringent cost control measures exercised throughout the year.

Operating Expenses

In 2009, as the sales of the Group recovered and business operations resumed to normal, the operating expenses of the Group returned to a healthy level. The operating expenses amounted to RMB5,630.3 million (2008: RMB5,926.2 million), which was 21.9% (2008: 24.8%) of the Group's revenue for the year and represented a drop of 2.9 percentage points as compared with last year.

The Group implemented various specified marketing campaigns to launch different new target products of the Group throughout the year. The Group also strengthened its advertising and marketing efforts to enhance customer loyalty to the *MENGNIU* brand and therefore, the percentage of advertising and promotion expenses to the Group's revenue increased from 9.3% in 2008 to 10.3% in the year under review.

In 2009, administrative and other operating expenses amounted to RMB976.8 million (2008: RMB1,498.2 million), which was 3.8% of the Group's revenue (2008: 6.3%) and represented a decrease by 2.5 percentage points as compared with last year, as the Group's business operations resumed to normal and the administrative and other operating expenses thereby having been adjusted to a reasonable level.

Profit from Operating Activities and Net Profit Attributable to Owners of the Company

The Group's EBITDA for the year was RMB1,997.9 million (2008: LBITDA of RMB461.7 million), whilst the EBITDA margin was 7.8%. Net profit attributable to owners of the Company was RMB1,115.8 million (2008: net loss of RMB948.6 million). The EBITDA and net profit attributable to owners of the Company successfully registered a turnaround from 2008, mainly due to the return to normal operations during the year. With a higher gross profit, the Group's profit level has reverted to a reasonable level.

Capital Structure, Liquidity and Financial Resources

For the year ended 31 December 2009, the Group's net cash inflow from operating activities amounted to RMB2,131.6 million (2008: RMB586.9 million). Net cash balances (cash and bank balances net of total bank loans) reached RMB5,476.4 million (31 December 2008: RMB1,313.3 million) as at 31 December 2009, indicating the strong financial position and healthy cash flow of the Group.

As at 31 December 2009, the outstanding bank loans of the Group amounted to RMB673.6 million (31 December 2008: RMB1,728.7 million), of which RMB323.6 million (31 December 2008: RMB1,208.7 million) was repayable within one year and RMB350 million (31 December 2008: RMB520 million) was repayable beyond one year. The bank loans totalling RMB323.6 million (31 December 2008: RMB720.3 million) were fixed interest-bearing loans.

The total equity of the Group was RMB8,911.7 million as at 31 December 2009 (31 December 2008: RMB4,738 million), and the debt-to-equity ratio (total bank loans over total equity) of the Group was 7.6% (31 December 2008: 36.5%).

For the year ended 31 December 2009, the Group's finance costs amounted to RMB61.15 million (2008: RMB39.39 million), representing approximately 0.2% of the Group's revenue (2008: 0.2%).

MARKET REVIEW

The China dairy industry experienced a full recovery and growth in 2009. The China dairy product industry continued to implement stringent quality control procedures in concert with national laws and regulations and strived to ensure the safety of dairy products in long run. As a result, consumer confidence was retrieved and enhanced while consumer sentiment towards dairy products rapidly resumed. With the aim to achieve the GDP growth target of 8%, the Chinese

Government implemented policies to stimulate domestic consumption, and successfully spurred a more prosperous consumer goods sector, thus contributing to further expansion of the China dairy market. China has now become the world's largest consumer market of dairy products, providing an unprecedented opportunity for China dairy product enterprises.

Being a prime representative of the China dairy industry during the decade since its inception, Mengniu has been committed to providing quality high-end and functional products and has implemented targeted marketing campaigns. As a result of these ongoing priorities, Mengniu made the list and ranked 19th in the Report of Global Dairy Companies 2009 issued by Rabobank, Netherlands. It has become the first Chinese dairy company to make the roster of top 20 global dairy enterprises, and spearheaded the drive of China's dairy industry towards a world-class brand.

BUSINESS REVIEW

By virtue of a stable and reliable raw milk supply, Mengniu recorded proud results achievements during the year thanks to the top technical expertise and marketing insights of its highly professional R&D team. The Group's leading position in the market was further consolidated. According to statistics of China Industrial Information Issuing Centre under the National Bureau of Statistics of China, the Group's dairy products ranked first in sales volume and revenue among similar products in China market in 2009. In addition, according to statistics of China National Commercial Information Centre under the China General Chamber of Commerce, the Group's liquid milk was honored as the first among an integrated market share of similar products domestically.

The year saw key shareholders join forces with the Group, adding momentum for future business development. In July 2009, the Group succeeded in gaining capital injection from COFCO Limited ("COFCO"), the largest oil and food enterprise in China, and Hopu Investment Management Co., Ltd., a well-known private equity investment fund. The transaction not only enhances the Group's shareholding structure, and allows greater strategic thinking inputs, but also enables the Group to accelerate the integration of supply chains, internationalise food safety monitoring systems, and be able to strategically utilize global resources ("Three Progresses"), delivering a significant boost to the Group's presence in domestic and international markets in the future.

Branding and Marketing

During the year, the Group has introduced a new brand slogan – "Every Day for Tomorrow" (「每一天，為明天」) for *MENGNIU*, and implemented a series of brand value enhancing and product marketing campaigns to reinforce consumers' concerns on nutrition and health. Responding to the theme of "Every Day for Tomorrow", the Group has launched a series of advertisements, specifically focusing on four aspects, namely quality raw milk supply, quality production, quality control and quality research and development. The advertisement series aimed to illustrate the efforts made by the Group to both create a better future and provide better dairy products to consumers, thereby enhancing the reputation of the *MENGNIU* brand.

With respect to product promotion and marketing, the Group has organised a number of marketing campaigns targeting different products and the needs of various consumer groups. Highlights of these campaigns include "Excellent Breakfast Health Campaign of Mengniu Breakfast Milk" (「蒙牛早餐奶百分早餐健康行」) aimed at educating consumers to consider milk as a good choice of quality breakfast; and a TV basketball programme activity named "Mengniu NBA Ultimate Basketball Player" (「蒙牛NBA終極籃徒」) aimed at encouraging healthy living among teenagers of "Drinking Milk Every Day and Doing Exercise Every Day" (「每天喝牛奶每天運動」). Apart from effectively promoting the images and functions of different products, these activities delivered clearer communication to and strengthened loyalty to the *MENGNIU* brand among target consumers.

Through the different dimensions and various aspects of its brand marketing activities, **MENGNIU**'s brand value was greatly boosted in the year. Further endorsement was provided through a large number of brand awards received domestically and abroad. In the domestic arena, the awards include the "Top 10 Brands for the Year" (「年度10大風雲品牌」) and "The 60 Most Influential Brands in the 60 Years of the People's Republic of China" (「共和國60年最具影響力60品牌」) in the Two 100 Brands Election Activity for China's Economy (中國經濟雙百評選), "My Favorite Food Brand" (「我最喜愛的食品品牌」) at the 2009 China Food Expo Forum, and the "Favorite Milk of Beijing's Residents" (「首都居民最愛牛奶」), which constitute ample testimony that **MENGNIU** is a milk brand beloved by the Chinese people. In the international arena, **MENGNIU** was not only placed 19th in the Report of Global Dairy Companies 2009 issued by Rabobank, Netherlands, but was also recognised by the Expert Committee of Asia Brand Assessment System as one of the "Top 500 Asian Brands" (「亞洲品牌500強」). It has ranked among the top three dairy enterprises in Asia for four consecutive years and is on list of "China's Most Valuable Brands" (「中國最有價值品牌排行榜」) compiled by the City University of New York, USA, with the brand value surged more than 50% compared to last year.

Products

During the year under review, the Group continued to focus on the development of various high-end functional dairy products and developed a series of products incorporating premium attributes with high quality and high enjoyment level. The efforts devoted aimed to lead the consumption trend and fill the market gap. At the same time, the Group strived to continue its enhancement of the basic product line, so as to continually enhance and expand its share in the basic market.

Liquid milk

Revenue for the liquid milk segment amounted to RMB22,736.2 million (2008: RMB21,068.1 million), accounting for 88.4% (2008: 88.3%) of the revenue of the Group as its major income source.

UHT milk

Revenue from UHT milk products reached RMB14,196.2 million (2008: RMB13,697.1 million), accounting for 62.4% (2008: 65%) of liquid milk segment revenue. During the year, the Group improved the nutritional content of *Breakfast Milk* (早餐奶) and launched the fortified version of *Nutritional Set 6+1* (營養套裝6+1) series through integration of the six daily nutrients including dietary fiber and vitamins that the human body requires. In addition, a new taste, namely *Red Jujube Healthy Series* (紅棗健字號), was added to cater for the taste preference of the PRC consumers. *Xin Yang Dao* (新養道) series developed by the Group to aid digestion and intestinal absorption, remained as a flagship product of middle to high end functional milk. Its *Xin Yang Dao Low-Lactose Milk* (新養道低乳糖牛奶) was the signature product of middle to high end functional milk during the year, while the new *Xin Yang Dao Low-Lactose Low-Fat Milk* (新養道低乳糖低脂牛奶) debuted at the end of the year achieved a gratifying post-launch sales performance. The *Deluxe* (特侖蘇), high-end product series, was used by the Group to sponsor the China Tennis Open. The renowned pianist Lang Lang was also invited to provide commercial endorsement, meeting the preferences of the targeted consumer group to pursue elegance and refined entertainment. The product achieved ideal sales growth during the year. Furthermore, the Group also launched its upgraded versions of *Future Star* (未來星), *Future Star Wisdom Milk for Children* (未來星兒童牛奶智慧型) and *Future Star Vitality Milk for Children* (未來星兒童牛奶活力型), to cater for the needs of very young children in their earliest stage of development. We also organised marketing activities to promote sales of the children's milk products in combination with popular cartoon films to elicit children's enthusiasm thereby expanding the Group's share in the children's market segment.

Milk beverages

Revenue from the milk beverages segment was RMB6,387.3 million (2008: RMB5,593.6 million), accounting for 28.1% (2008: 26.6%) of the liquid milk segment revenue. The new product of *Suan Suan Ru* (酸酸乳) series, *Fruit and Vegetable Suan Suan Ru* (果蔬酸酸乳) perfectly integrates pure fruit juice, vegetable juice and fresh milk in a delicious combination and introduces a variety of tasty flavors whereby consumers could realise the higher pursuit of health and sophistication. *Suan Suan Ru* (酸酸乳) and *Fruit Milk Drink* (真果粒) have attracted consumers, and their video advertisements have also caught the attention of audiences and professionals alike, winning the EFFIE Awards which are widely known as the Oscar of China's advertising industry. An upstart among children's milk beverages, *Miao Miao Milk* (妙妙奶), featuring "More Delicious than Milk, More Nutritious than Beverages" (「比牛奶更美味，比飲料更營養」) as the main selling point, not only addresses mothers' concern for nutrition, but also caters for children's high demand for tasty drink. In addition, *Youyi C Active Lactic Acid Bacteria Beverage* (優益C活性乳酸菌飲料), which contains active lactic acid bacteria and can effectively boost intestinal digestion, led the high-end market for lactobacillus beverages in China.

Yogurt

Revenue from the yogurt segment amounted to RMB2,152.7 million (2008: RMB1,777.4 million), accounting for 9.5% (2008: 8.4%) of the liquid milk segment revenue. Through a series of charity marketing and experiential promotion activities such as "Champion Digestive System Care Action" (「冠益乳腸道關愛行動」), which aroused awareness of intestinal health and advanced the concept of "Doing Spa for the Intestines" (「給腸道做Spa」), the Group has vigorously built *Champion* (冠益乳) as the first brand of yogurt. The *Red Jujube Yogurt* (紅棗酸奶) launched by the Group, by incorporating traditional Chinese health concepts, has been favored by the public, especially the middle-and-old aged consumer groups. With *Red Jujube Yogurt* (紅棗酸奶) as the basic product, the Group aims to develop a *Chinese Nourishment* series guided by the concept of "Good Nourishment, Good Complexion" (「好滋養，好氣色」) which includes Chinese tastes associated with health (e.g. longan and hawthorn). *Grain Yogurt* (穀物酸牛奶) targeting the young white-collar and middle-class families, which blends the nutrition and taste of grain and milk, is set to become a new high-end replacement for conventional meals.

Ice cream

Revenue of the ice cream segment amounted to RMB2,685.1 million (2008: RMB2,626.5 million), accounting for 10.5% (2008: 11%) of the revenue of the Group. While striving to maintain the overall image and balanced development of the original series of five ice cream secondary brands, the Group has focused on the promotion of two of its secondary brands namely *Sui Bian and Ice+* (隨變及冰+). The Group is building a "Ready-to-change" (「勇於改變」) brand image for *Sui Bian* (隨變). By hosting the competition "Mengniu Sui Bian Who Dares to Sing – National Talented Singer Singing Contest" (「蒙牛隨變誰敢來唱歌—K歌達人全國巡迴挑戰賽」), the Group has gained a higher acceptance of the product among its targeted young fashionable consumers. In promoting the *Ice+* (冰+) brand, the theme of "Ice + Fruits, Happiness + Me" (「冰+水果，快樂+我」) has been featured through the release of diversified *ice + flesh* (冰+果肉) and *ice + pulp* (冰+果漿) products, creating a competitive edge in the market for summer iced products.

Other dairy products

Revenue from other dairy products amounted to RMB289.2 million (2008: RMB170.4 million), accounting for 1.1% (2008: 0.7%) of the revenue of the Group. In regard of milk powder, *Jin Zhuang Jiazhi*TM (金裝佳智TM) infant formula, developed by the business line **MENGNUU ARLA** (蒙牛阿拉) of the Group, has provided babies with the optimum nutrition ration for healthy development of mental and sight organs as well as physical growth, and has also fulfilled parents' expectation of synchronous development in both intelligence and emotion.

In response to the taste preference of Chinese consumers, the Group has introduced innovative cheese products and produced cheese that is suitable for Chinese. During the year, building on its original series of *Distingue Elegant Life Cheese* (締芝特優雅生活系列), *Distinguished Family Breakfast Cheese* (締芝特家庭早餐系列) as well as *Growth Cheese* (成長系列), the Group launched exciting new tastes including black pepper and cumin, and other innovative products such as *Fresh Cheese* (新鮮奶酪) and *Cheese Mate* (酪伴) to enhance market penetration.

Quality Control

During the year, the Group has been adhering to strict quality control standards, and is committed to establishing and maintaining a long-term and comprehensive manufacturing regulatory system, so as to fulfill its commitments of assuring stringent control and accountability in every stage of production for every pack of milk and thereby not only delivering good taste but also ensuring the utmost safety for its products. The Group's quality control measures have obtained certifications from five key safety regimes: ISO9001 (quality management system), ISO14000 (environment management system), OHSAS18001 (occupational health and safety management system), and GMP and HACCP (food safety control system). Earning these international certifications underlines the guaranteed quality of its products. In celebrating Mengniu's 10th anniversary, the Group has launched the "Mengniu 360° Panoramic View Website" (「蒙牛360°全景網站」), where consumers and all sectors of the society can employ high technology to explore Mengniu Industry Workshop and the operating procedures in every work area and to better understand Mengniu's modern production bases. Through the website, consumers can witness its commitment to product quality through scientific management in action.

Production and Operations

During the year, the Group further expanded production capacity, reaching an aggregate annual production of 5.76 million tons (2008: 5.57 million tons).

As a pioneer in the industry, the Group has set up a state-of-the-art R&D centre with the objective of creating the "Silicon Valley of Dairy Products" through combining the strengths of 16 dairy R&D institutions around the world. Moreover, the Group has been proactive in responding to various provisions in China's 11th Five-Year Plan. The Group has also strived to offer ample applicable technical support for the long-term development of China's dairy industry. Moreover, through its collaboration with overseas R&D centres, the Group has imported technologies yet to be developed within China. The Group's initiatives have laid a solid foundation for innovative product development, demonstrating Mengniu's philosophy of enhancing the quality of life through science and technology.

Joint Ventures and Alliances

Apart from its strategic alliance with COFCO, the Group has also established partner relationships with leading enterprises within a variety of industries. The synergies thus generated have been demonstrated in expanded distribution channels and enriched distribution methods. Currently, the Group cooperates with a variety of sectors including banks, hotels, theatres, fast-food chains, airlines, gas stations and railways. Most notably, the Group has entered into a collaboration agreement with the China Space Foundation, achieving the enviable position as the enterprise providing Products Exclusively for China's Space Programme (中國航天專用產品) for seven successive years.

Industry Exchange

As a leader in China's dairy industry, the Group has been proactively leveraging its advantages on resources and technology by providing dairy farmers with technical services and management support on an on-going basis through the Mengniu Service Centre for Designated Collection Facilities. The diversified services offered include 24-hour equipment repair service, free training for raising skill competencies and application of the raw milk index, free mailbox service regarding breeding skills and regular release of epidemic prevention schemes to dairy farmers for a better and healthy development of the industry. In addition, the Group also actively collaborates with other entities through activities including participation in the "Innovative Strategic Alliance of Dairy Technology" (「乳業技術創新策略聯盟」), which was jointly set up by renowned enterprises and major scientific research institutions in the dairy industry and "The Seminar on Probiotics and Health and Application Technology" (「益生菌與健康及應用技術交流研討會」) held by the State Food and Drug Administration.

Social Responsibility

The Copenhagen Climate Summit reinforces alarms over global warming and climate change. As a world-known dairy corporation, Mengniu took early steps in advancing environmental protection. Early in 2007, the Group began to advocate among its partners and completed a large methane power plant in Shengle Economic Zone of Helingeer. Cow droppings and fermented urine from large ranches are used as fuel for power generation and residue from the process is manufactured into organic fertilizer. During the year, the Group stepped up its efforts to become a global climate citizen, for it not only earnestly pursued sustainable business development and growth to achieve green GDP, but also strived to reduce damage to the environment in its use of resources. The Group implemented energy saving and carbon emission reduction measures throughout production, and built a green supply chain for a low carbon economy. Meanwhile, it initiated the "Mengniu Eco-Grassland Fund" (「蒙牛生態草原基金」) with the Ecosystem China Working Committee (生態中國工作委員會) and launched a large public welfare activity, "100 Actions to Save the Earth" (「拯救地球的100個行動」), building a platform for enterprises, organisations and individual volunteers to participate in eco-protection activities. The Group ranked second in the "Top 20 Enterprises in Saving Energy and Reducing Emission" (「節能減排20佳企業」) sponsored by the China Economic Forum Organizing Committee (中國經濟論壇組委會). As the only dairy enterprise among those honoured, the Group earned unanimous praise from the judges with its concept "Green Recovery of Traditional Industry – Building Harmonious Eco-circle for Enterprises" (「傳統行業的綠色復甦—構建企業和諧生態圈」) and its application within the Group's operations.

The Group has also expanded its coverage of community care activities to a greater number of socially disadvantaged people. The Group's charity campaigns include providing milk to China-Dolls Care and Support Association with the aim to provide nutritional supplements to sick children; and providing milk to the Service Centre for Children Left Behind in Rural Areas (農村留守兒童服務中心) to express its care and concern to children in backward areas. In addition, the Group spared no effort to promote the "Milk Loving Care in China" (「中國牛奶愛心行動」) campaign. Through airing the documentary, "Milk Dream" (「牛奶夢」) on CCTV last year, it is expected that more people will work together to make greater contributions to children in need.

OUTLOOK

In 2009, the resilience of China's dairy industry validated the effectiveness of policies aimed at the revival of the industry adopted by the Chinese government and verified the achievements attained by dairy enterprises within China. Initiatives such as the "Dairy Product Industrial Policies (2009 Version)" (《乳製品工業產業政策(2009年修訂)》) and "Technical Regulations for Standardization Management on Raw Milk Collection Centres" (《生鮮乳收購站標準化管理技術規範》) promulgated by the central government during the year encompass a wide spectrum of industry procedures, including raw milk supply, technical equipment, quality and safety, as well as consumption and transportation. These actions further strengthened industry regulation while promoting closer integration of processes, and therefore provided a useful framework for the sound development of China dairy industry.

As the first PRC dairy enterprise to achieve a position among the world's top 20 dairy enterprises, the Group is to bear more responsibilities and missions in future. Apart from its emphasis on R&D to develop high-end healthy dairy products while producing green, natural and high-quality products to guide the market trend, the Group will further attain a competitive edge in milk sources. At the same time, the Group intends to fulfill requirements on the scale of milk cattle breeding operations under the "Outlines of the Rectification and Revival of the Dairy Industry" (《奶業整頓和振興規劃綱要》) on schedule or earlier, to serve as a good role model for the entire dairy industry.

Deepen Strategic Cooperation with COFCO to Accelerate the "Three Progresses"

Receiving a capital injection from COFCO in July 2009 and riding its extensive experience in processing of agricultural products, food processing, import and export, as well as its networks with domestic and overseas customers, the Group will more efficiently allocate sales resources, improve its domestic sales coverage and accelerate opening of international markets. Meanwhile, by creatively adopting COFCO's concept of integrating the entire production chain, the Group will, starting from utilising ecologically friendly milk sources and construction of ecologically friendly pastures, continue to promote standardisation of ranches, rendering milk sources as a key element in its green production chain. Through its close co-development with COFCO, the Group will accelerate the integration of supply chain, internationalisation of food safety monitoring systems, and globalisation of utilising strategic resources.

The Group has commenced cooperation with COFCO, through which COFCO supplies quality raw materials and other related products to the Group. Mengniu has also leveraged COFCO's sales channels such as their websites to sell *MENGNIU* products. This initiative has laid a solid foundation for the advanced collaboration for the benefit of both parties.

Promote Standardisation of Ranches for Advantages in Milk Sources

Relevant policies promulgated by the central government, including “Outlines of the Rectification and Revival of the Dairy Industry” (《奶業整頓和振興規劃綱要》) and “Conditions for Admission to the Dairy Product Processing Industry” (《乳製品加工行業准入條件》), have served to further clarify objectives and directions for the Group’s strategy to standardise its ranches. To fulfill requirements for ranch standardisation and management, and to increase the scale of its milk cattle breeding operations, which are expressly provided by state policy guidelines, during the year, the Group has set up a dedicated ranch construction centre to assist with the construction of milk supply bases. In the future, the Group will continue to promote cooperation with raw milk suppliers and milk collection centres, strengthen monitoring and guidance on raw milk production, and adopt a number of measures, including training on modern breeding technologies, to ensure quality and safety of raw milk. At the same time, the Group will greatly assist the development of advanced internationalised dairy farms and small and medium ranches, as well as to upgrade its milk supply base, to create a system of best practices for a modern dairy industry in China.

Achieve Objective of “Every Day for Tomorrow”

The Group will continue to capitalise on its powerful technology and strong R&D capability in order to focus on the development of a variety of high-end functional dairy products. To meet the demand of modern consumers for health and nutrition, the Group will launch products with high nutrition and high quality, filling the gap in China dairy market. In the four procedures of raw milk sourcing, production, quality control and R&D, the Group will ensure everything is at high standard for consumers, to fulfill its promise of “Every Day for Tomorrow”. This promise will be firmly kept by using high-quality raw milk made naturally, delivering high-quality products assured through strict management, incorporating high-quality content certified by international standards, and initiating high-quality procedures implemented by deploying the latest technologies.

Looking forward, Mengniu will strive to become one of the top 10 companies in the global dairy industry, with a focus of its strategy centering on this worthy objective. In quest of its advance R&D, the Group will, through its own innovations and adapting leading technologies and techniques abroad, continue its strategic direction to develop new products to meet consumers’ demand for taste, nutrition and health. In addition to its meticulous attention to the pursuit of excellence, the Group will continue to implement quality control regulations adhering to international standards, and deploy international advanced equipment and computerized operation to ensure the quality of its products. To further promote the sustainable development of the dairy industry, Mengniu is committed to implementing the guiding concept of “Eco-friendly, Green, Environmental Protection and Recyclable Development” (「生態、綠色、環保、可循環發展」) through every step of the dairy production chain, providing a good role model for the industry.

The Group believes that, with the worthy prospect of “Every Day for Tomorrow”, we shall surely become a renowned dairy brand in the world through its green, healthy products and ecologically friendly production chain. In addition, the Group will continue to embark on activities that provide care for disadvantaged people, the society at large and the environment by tapping its own resources and leveraging strengths from other parties.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

As at 31 December 2009, the Group had approximately 21,100 employees in Mainland China and Hong Kong. Total staff costs for the year, excluding directors' remuneration, were approximately RMB1,317.3 million (2008: RMB1,063.2 million). The Group continued to provide pre-job orientation and on-the-job training to staff members, and arranged tests of the professional knowledge for all staff members, while timely conveying information about the latest policies for dairy industry promulgated by the government, with the goal of improving staff expertise and overall competency. Meanwhile, senior management and technicians have been offered opportunities to study abroad and attend training programs, where they can gain experience from some of the world's leading dairy companies and apply to the Group's operations. Moreover, the Group has organised creative R&D competition in the year to inspire initiatives for further development, while spurring momentum of innovation based on the Group's technologies.

CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance practices.

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with all applicable code provisions set out in the CG Code during the year ended 31 December 2009.

Mr. Li Jianxin, an independent non-executive Director, an audit committee and a remuneration committee member of the Company passed away on 20 February 2009. Following the passing away of Mr. Li, the Company had only two independent non-executive Directors and two audit committee members and accordingly did not have the requisite minimum number of independent non-executive Directors and audit committee members (i.e. three) under the Listing Rules. The Company has appointed a suitable candidate, with effect on 1 May 2009, to fill the vacancy within the time period under the Listing Rules.

SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. The Directors have confirmed, following the specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities shares during the year ended 31 December 2009.

AUDIT COMMITTEE

The Audit Committee has reviewed with the Company's management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters, including the review of the Group's audited financial statements for the year ended 31 December 2009.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2009 have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.1413 (2008: Nil) per ordinary share for the year ended 31 December 2009. Upon shareholders' approval at the forthcoming AGM, the proposed final dividend will be paid on or about 14 June 2010 to shareholders whose names appear on the register of members of the Company on 9 June 2010.

CLOSURE OF REGISTER

The register of members of the Company will be closed from 4 June 2010 to 9 June 2010, both days inclusive, during which period no transfer of shares of the Company can be registered. In order to qualify for the abovementioned proposed final dividends, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 3 June 2010.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of the Company's investor relations at www.mengniu.com and Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. The annual report of the Company will be despatched to shareholders and available at the same websites in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Executive Directors are Mr. Niu Gensheng, Mr. Yang Wenjun, Mr. Bai Ying, Mr. Wu Jingshui and Mr. Ding Sheng. The Non-executive Directors are Mr. Ning Gaoning, Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Yu Xubo, Mr. Ma Jianping, Mr. Fang Fenglei and Mr. Ma Wangjun. The Independent Non-executive Directors are Mr. Zhang Julin, Mr. Liu Fuchun and Mr. Zhang Xiaoya.

APPRECIATION

The Directors would like to take this opportunity to express gratitude to its shareholders and the public for their continued support, and to all staff for their hard work and commitment.

By order of the Board
Yang Wenjun
Chief Executive Officer

Hong Kong, 27 April 2010

* For identification purposes only