每一天为明天

Annual Report 2009 年報

蒙牛

MENGNIU

China Mengniu Dairy Company Limited
中國蒙牛乳業有限公司*

(incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立之有限公司)

Stock Code 股份代碼： 2319

* For identification purpose only
僅供識別

Corporate Profile

China Mengniu Dairy Company Limited (Stock Code: 2319) and its subsidiaries (the "Group") manufacture and distribute dairy products in China. It is one of the leading dairy product manufacturers in China, with ***MENGNIU*** as its core brand. The Group's diverse products include liquid milk products, such as UHT milk, milk beverages and yogurt, ice cream and other dairy products such as milk powder. In December 2009, the Group's annual production capacity reached 5.76 million tons.

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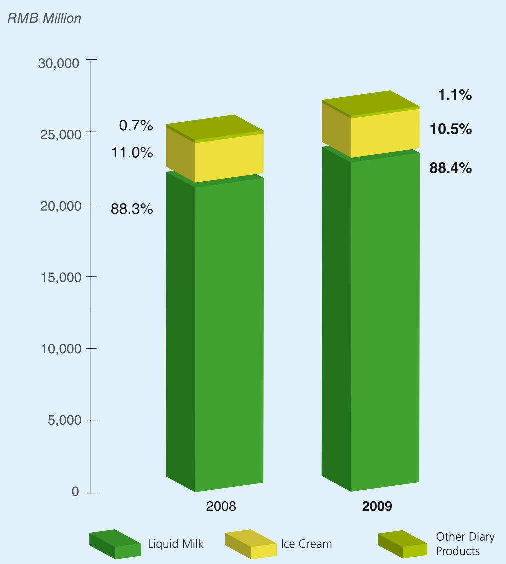
Financial Highlights

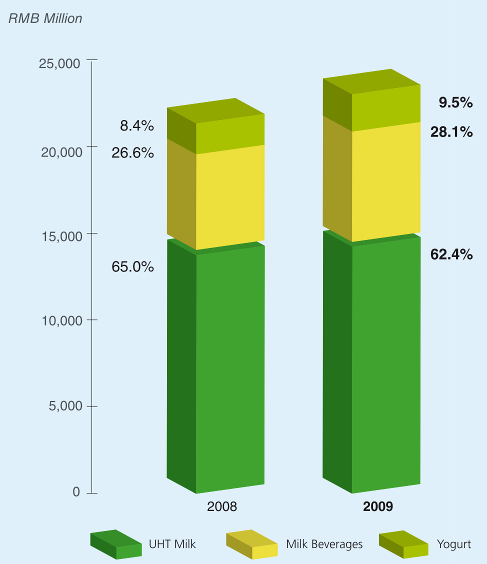
For the year ended 31 December	**2009** **RMB'000**	2008 RMB'000
Revenue	25,710,460	23,864,975
Net profit/(loss) attributable to owners of the Company	1,115,799	(948,600)
Net cash flows from operating activities	2,131,571	586,880
Basic earnings per share *(RMB)*	0.681	(0.639)
Proposed final dividend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

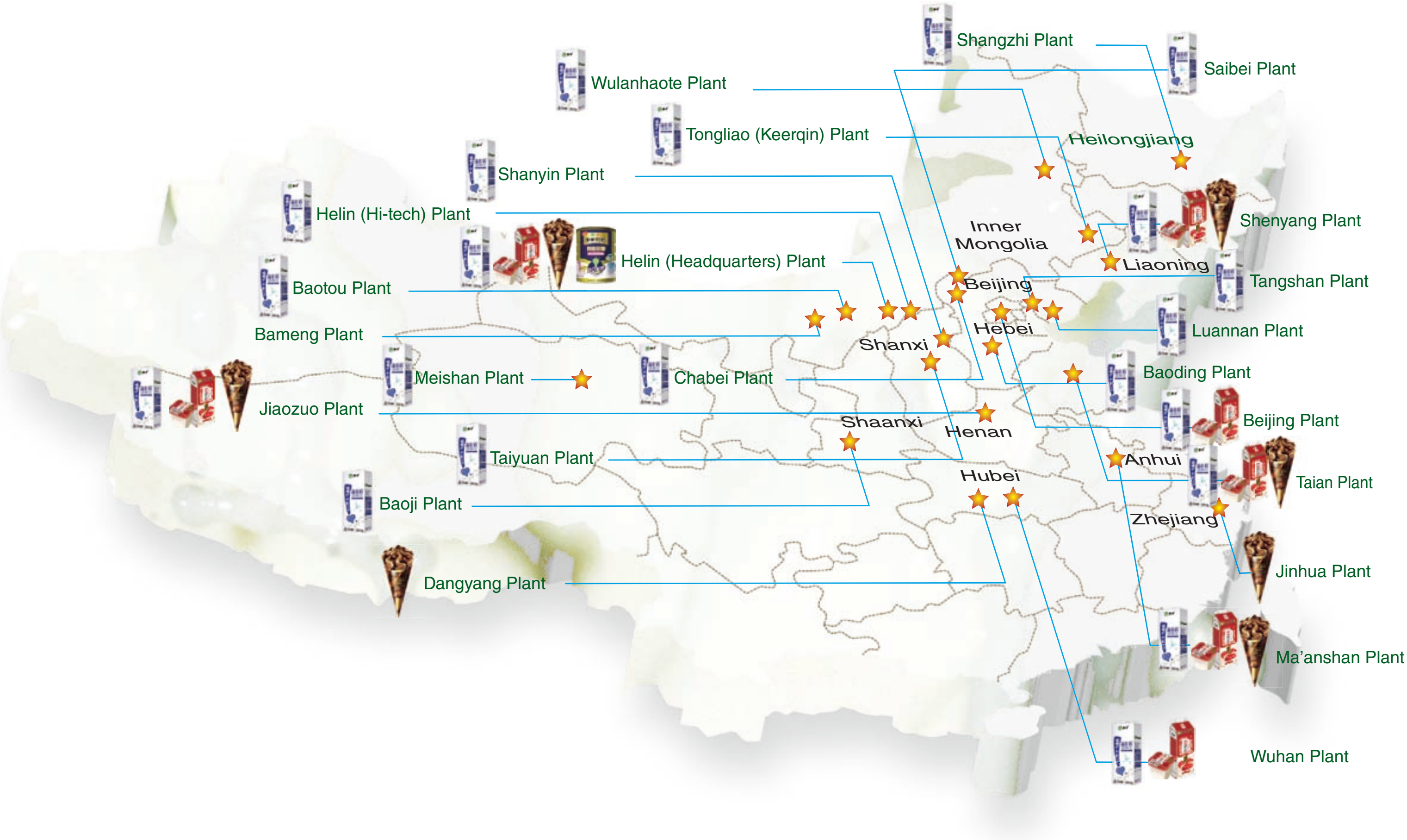
Revenue by Product Mix
For the year ended 31 December



Product Mix in Liquid Milk Segment
For the year ended 31 December



Plant Map



UHT milk and milk beverage

Yogurt

Ice cream

Other dairy product

Milestone – Mengniu's 10th Anniversary

1999

Jul Inner Mongolia Mengniu Dairy (Group) Co., Ltd. was established

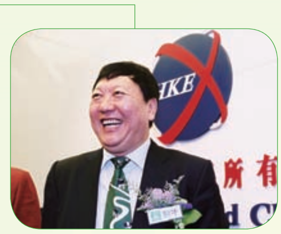
2002

Sep Named **China Top Brand Products** by General Administration of Quality Supervision, Inspection and Quarantine of China

Feb Named **Well-known Brand in China** by State Administration for Industry and Commerce

2003

Oct Products qualified for astronauts use and became the exclusive **Dairy Product of Chinese Cosmonaut**, verified by China Manned Space Engineering Department



2004

Dec Named the **Best Mid-cap Equity Deal** by Asia Money and the **Best Mid-cap IPO** by The Asset Asia Award

Jun Listed on the main board of The Stock Exchange of Hong Kong Limited (stock code: 2319), and became the first Mainland dairy company listed abroad

2005

Aug Participated in the establishment of the largest single dairy ranch in China, and became the pioneer of the PRC dairy enterprise in construction of super-large size ranch

2006

Dec Received **Certificate of Excellence in Investor Relations** at the IR Magazine Awards 2006 (China) and among the highly commended companies with the **Best Investor Relations Officer** (non-state owned enterprises)

Oct *Milk Deluxe* won the **2006 International Dairy Federation (IDF) Marketing Awards – New Product Development**, the first Chinese enterprise winner of the IDF award

May Started the 2-year long "Milk Loving Care" campaign to provide free milk to students in more than 1,000 primary schools in poor districts across the country

Apr Established ***MENGNIU ARLA*** brand with the premier Denmark dairy manufacturer Arla Foods, jointly developing high quality milk powder products

Apr Formed corporate alliance with Disney, proving the international recognition of the Group's products

Milestone – Mengniu's 10th Anniversary

2007

Nov *Champion* series was awarded the **Golden Prize** in the 16th China Food Expo

Jul Established Hi-tech Dairy Product Research Institute cum intelligent production base, which is among the top dairy R&D centres in the world

Jan Became the official partner of NBA in China and the exclusive supplier of dairy products at related events in the country

2008

Oct *Fruit Milk Drink* series received the **Country Award** at the 2008 SIAL International Food Products Exhibition

2009

Aug Ranked 19th in the 2009 Global Dairy Company list compiled by Rabobank, Netherlands, the first time a Chinese dairy company made it among the top 20

Jul Secured capital injection by COFCO Limited, a leading oil and food enterprise in China, and Hopu Investment Management Co., Ltd, a renowned private equity fund, marking the formation of strategic alliance between the largest dairy enterprise and grain, oil and foodstuff enterprise in China

Jun *Champion* series became the first product of the Group to be approved as functional food by the State Food and Drug Administration

CEO's Statement

A decade of dedication to a better future
– "Every day for tomorrow"

Yang Wenjun
Chief Executive Officer

CEO's Statement

I am pleased to present the annual results of China Mengniu Dairy Company Limited (the "Company") and its subsidiaries ("Mengniu" or the "Group") for the year ended 31 December 2009 to our shareholders.

In 2009, riding on China's economic policy attaining the targeted GDP growth of 8% and under the favourable trend of full recovery of Chinese dairy industry, the Group achieved satisfactory results, with both its revenue and profit hitting new record highs in 2009. According to the National Bureau of Statistics of China, the Group's products ranked first again in China in terms of sales volume. Furthermore, Mengniu was ranked 19th in the Report of the Global Dairy Companies 2009 issued by Rabobank Netherlands, and it becomes the first Chinese dairy company to be included among the world's top 20 dairy enterprises, with its brilliant results attracting worldwide attention.

During the year, we further enriched the product portfolio of our high-end functional dairy products and also made relentless efforts to improve our basic product lines in terms of packaging and taste. Our profitability thus made great strides. In 2009, the Group's revenue increased by 7.7% to RMB25,710.5 million and net profit attributable to owners of the Company increased to RMB1,115.8 million. Basic earnings per share were RMB0.681. The Board of Directors of the Company (the "Board of Directors") recommended a final dividend payment of RMB0.1413 per share for the year ended 31 December 2009.

During the year under review, the Group's liquid milk segment recorded an outstanding performance and continued to be our major source of income. Revenue from the liquid milk segment increased by 7.9% to RMB22,736.2 million, accounting for 88.4% of the Group's revenue. *Milk Deluxe (特侖蘇)*, with its superior quality, rolled out its marketing campaign targeting consumer groups in search of an elite lifestyle and taste. *Milk Deluxe* sustained its sales growth and maintained its competitive edge in the high-end milk market. The *Xin Yang Dao (新養道)* series, as a mainstay middle to high end functional milk product, recorded a satisfactory sales volume. To address the nutritional needs of children in their developmental stage, the Group introduced the upgraded products, *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)*. Both products sustained robust sales volumes, through successful promotional activities which were well-received by the children. To enrich the *Suan Suan Ru (酸酸乳)* series, a well-known milk beverage product of ***MENGNIU***, the Group introduced *Fruit & Vegetable Suan Suan Ru (果蔬酸酸乳)*, a new product integrating pure fruit juice, vegetable juice and fresh milk, which reinforced our expansion into the milk beverages market. In addition, through charity marketing activities and promotional pilot programmes, the *Champion (冠益乳)* series has been further reinforced as a champion yogurt brand. Revenue from the ice cream segment increased by 2.2% to RMB2,685.1 million, accounting for 10.5% of the Group's revenue. While striving to maintain the overall brand image and balanced development of the five existing ice cream brands, the Group has strategically enhanced the promotion of two of its secondary ice cream brands, namely *Sui Bian (隨變)* and *Ice+ (冰+)*. Revenue from other dairy products surged by 69.8% to RMB289.2 million, accounting for 1.1% of the Group's revenue. Catering for the taste of Chinese consumers, the Group has also launched innovative cheese products such as *Fresh Cheese (新鮮奶酪)* and *Cheese Mate (酪伴)* and introduced new flavours such as black pepper and cumin to increase market penetration.

As a well-established enterprise, Mengniu continued to adopt a development strategy on not only the accumulation of quantity but also the dedication to quality. In line with our development objective to ensure raw milk quality and to achieve quality production, quality control and research and development ("R&D"), the Group has created a new slogan – "Every Day for

CEO's Statement

Tomorrow" for ***MENGNIU*** during the year. To promote this new slogan, the Group introduced a series of brand value-adding and marketing events focusing on consumer awareness on nutrition and health. Through the Group's comprehensive and multi-dimensional marketing strategies, ***MENGNIU***'s brand value has been greatly enhanced during the year and was awarded with numerous domestic and international brand awards, including 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」) by the Two 100 Brands Election for China's Economy (「中國經濟雙百評選」), and "My Favorite Food Brand" (「我最喜愛的食品品牌」) at the 2009 China Food Expo Forum, "Favorite Milk of Beijing Residents" (「首都居民最愛牛奶」), as well as inclusion in the list for "China's Most Valuable Brands" released by the City University of New York, USA. Our brand value has dramatically increased by more than 50% as compared to the previous year.

It is, and has always been, the Group's underlying principle to implement stringent product quality control and to establish a comprehensive production monitoring system so as to ensure control over and traceability of each production stage for every pack of milk. It is the wish of each of our staff that consumers can safely enjoy our milk. The Group's quality control system has received certification from five key safety schemes, namely, ISO9001 (quality management system), ISO14000 (environmental management system), OHSAS18001 (occupational health and safety management system), and GMP and HACCP (food safety control system), all of which underline the guaranteed quality of our products. During the year, the Group also launched the "Mengniu 360° Panoramic View Website" (「蒙牛360°全景網站」). Through the use of high-end technology, the website enables consumers and other sectors of society to explore the Group's modern production base, and allows ongoing interaction between the Group and the public so as to enhance corporate reputation and brand loyalty. In addition, the Group's R&D centre, which integrates the resources of 16 dairy R&D institutions around the world, continued to develop and introduce technologies yet to be available in China, which provides the Group with a solid foundation for the development of new products.

In addition to our own earnest exploration of better production and quality control, as well as continuous efforts to innovate dairy business development, in 2009 the Group secured a capital injection from COFCO Limited ("COFCO"), the largest oil and food enterprise in China, and Hopu Investment Management Co., Ltd., a renowned private equity fund. The investment not only enriched and strengthened the Group's shareholding structure, but also enabled Mengniu to forge a strategic alliance with COFCO and achieve certain synergies. By leveraging on COFCO's extensive experience in the processing of agricultural products, food manufacturing and import and export of food products, as well as its extensive cooperation relationships with and networks of both domestic and overseas customers, the Group will be able to accelerate the integration of raw material supply chains, articulate food safety monitoring systems with international standards and be able to strategically allocate global resources. The synergized cooperation between the Group and COFCO has already commenced. COFCO has started to supply quality raw materials and other related products to the Group, while the Group has also utilized COFCO's sales channels such as COFCO's websites to sell ***MENGNIU*** products. The said initial cooperation has laid a solid foundation for more extensive collaboration between the two groups. By adapting COFCO's concept of integration of the entire

CEO's Statement

production chain, the Group will continue to ensure ecologically friendly milk sources by constructing ecologically friendly dairy ranches, with emphasis on milk sources as a key element in our green production chain.

As a pioneer in the China dairy industry and as part of its vision, Mengniu strives to nurture the progress and development of the industry and to establish itself as a role model for the industry. The Group has continued to implement its strategy of standardizing ranches, in accordance with and in some circumstances even exceeding the requirements of the "Outlines of the Rectification and Revival of the Dairy Industry". In addition, by proactively capitalising on its competitive edge in resources and technology, the Group has also funded and established the "Mengniu Designated Milk Service Centres". These initiatives have not only provided technical services and management support to dairy farmers on an ongoing basis, but have also enabled us to jointly promote with other industry participants the healthy and balanced development of the dairy industry.

As an enterprise with a strong sense of social responsibility, the Group has promoted community welfare in parallel to its business growth. Apart from initiating its community welfare programs to cover more socially disadvantaged groups, the Group has also expanded its charity coverage to include not only benefits to individuals and society-at-large but also care for nature and the ecosystem, with a view to building a harmonious society and ecosystem. The Group has, on the one hand, implemented energy saving and low carbon measures for each stage of its production process to establish a "green production chain" revolving around a low-carbon footprint, while on the other hand, the Group has established the "Mengniu Eco-ranch Fund" (「蒙牛生態草原基金」) in collaboration with the Working Committee of Eco-China (生態中國工作委員會). The Group has also initiated a large-scale community activity, "100 Acts to Save the Earth" (「拯救地球的100個行動」), a platform for enterprises, corporations and individuals to voluntarily participate in environmental protection activities. Committed to being a global environmental citizen, the Group will strive to reduce damage to environmental resources in its pursuit of business development, so as to achieve sustainable development and green GDP growth.

2009 was Mengniu's 10th anniversary and it marked a notable milestone of the Group. It was an important year to celebrate the Group's distinguished history and to embrace our exciting future. In these ten years, Mengniu has rapidly developed, from being initially based in Inner Mongolia, to have expanded to cover the whole nation. With their unfailing perseverance and dedication, our staff established Mengniu as a legend in the history of China's dairy industry. Mengniu's entry into the top 20 global industry leaders in the Report of the Global Dairy Companies 2009 issued by Rabobank in the Netherlands is a testament to Mengniu's fruitful growth over the past decade and a source of motivation for Mengniu's further development in the coming decade. Looking forward to the coming decade, Mengniu will strive to become one of the top 10 global dairy companies, and extend its footprint across the world. By keeping the said objective in mind, we will continue to undertake strategic initiatives to manufacture natural, green and healthy products. I sincerely believe that through our earnest efforts day after day, the Group will bring a brighter and healthier future to consumers.

Mengniu's ten years of growth relied upon the tireless dedication of tens of thousands of our loyal staff, the high-quality raw materials

CEO's Statement

and effective distribution channels provided by thousands of our business partners, the unfailing support and encouragement from our investors and shareholders, and, most importantly, the treasured trust bestowed on ***MENGNIU*** from hundreds of millions of consumers who choose ***MENGNIU***'s products for themselves and their families. On behalf of Mengniu, I would like to express my sincerest gratitude to all of them. Each and every one of Mengniu's employees will continue to forge ahead toward our common goal of building ***MENGNIU*** into a world-renowned dairy brand.

Lastly, I would like to express special gratitude to Mr. Niu Gensheng, one of the Mengniu's founders. Mengniu's success is closely linked to Mr. Niu; every single step of Mengniu's development has stemmed from the toil of Mr. Niu and the dedicated team led by him. As the Group's spiritual leader, Mr. Niu will continue to contribute his wisdom and insights to guide the Group's strategic development in the future. Meanwhile, I will be responsible for overall production and operations and all related matters. I firmly believe that, with the Group's experienced core management team and through comprehensive personnel training and career development procedures, Mengniu will surely become a key player among the world's premium dairy brands and a major and long-standing leading enterprise.

Yang Wenjun
Chief Executive Officer

Hong Kong, 27 April 2010

Major Awards and Achievements

MENGNIU PRODUCTS

- Mengniu dairy products **ranked first in terms of sales volume and revenue among similar products in the market in China in 2009**, according to China Industrial Information Issuing Centre, National Bureau of Statistics of China
- Mengniu's **liquid milk** and **yogurt ranked first in terms of consolidated market share of similar products in China in 2009**, according to a commodity sales survey of large retail enterprises in China conducted by the China General Chamber of Commerce
- Mengniu's liquid milk was awarded the "**Top Seller**" prize, ranked first in terms of market share in this category for five consecutive years (2005-2009)
- Voted as "**Favourite Milk of Beijing's Residents**" in the activity jointly sponsored by the Beijing News, Beijing TV and Baidu.com
- Mengniu's dairy products were recognised as **exclusive milk products for athletes by the Training Bureau of General Administration of Sport of China**
- Appointed by China Space Foundation as a sponsor of the aviation industry in China. Mengniu's liquid milk, yogurt, milk powder, ice cream and cheese were recognised as **exclusive products for the China's Space Programme** for seven successive years
- Mengniu's ***Fruit Milk Drink (真果粒)*** and ***Fruit & Vegetable Suan Suan Ru (果蔬酸酸乳) earned prizes in the EFFIE Awards*** from China Advertising Association

THE GROUP

- **Ranked 19th in the Report of Global Dairy Companies 2009** issued by Rabobank, Netherlands
- The "**Harmonious Ecological Community" Campaign** earned Mengniu the recognition as the **Top 20 Enterprises in Saving Energy and Reducing Emission** sponsored by China Economic Forum Organizing Committee
- Won the "**2009 Health in China – Outstanding Contribution Award**" from the General Administration of Sports of China
- Won a **Special Contribution Award** at the 5th Anniversary of The Universal Chinese Sports Association
- Won the "**2009 Golden Marketing Award – Best Interactive Charity Award**" from Sohu.com
- Presented with a "**Charitable Contribution to the Poor Certificate**" from the Beijing Donation Management Centre

MENGNIU BRAND

- Named as the "**Most Promising Brand**" and Top 500 Asian Brands for four consecutive years
- Named as one of the "**China's Most Valuable Brands**" by the City University of New York, USA with **brand value surged by more than 50% compared to last year**
- **Ranked 22nd on China's Most Valuable Brand List** and **retained the top position in the dairy industry**
- Ranked as one of the **"Top 10 Brands for the Year"** and **"60 Most Influential Brands in the 60 Years of the People's Republic of China"** in the Top 100 Companies in China
- Won the "**Award for the Chinese Enterprise with the Best Brand Value in the Year**" from the China Association of National Advertisers and Chief Brand Officer magazine
- Won the **"2009 China Brand Hua Pu Award"** at the Third China Brand Festival
- Named "**My Favourite Food Brand**" at the 2009 China Food Expo Forum
- "*A catty of milk a day keeps the Chinese people invigorated always*" campaign selected among the **Most Influential Corporate Brand Campaigns in the 30 Years of Reform and Opening-up of the PRC** at the Global Campaign Sales Conference

每一天，每一名蒙牛员工，从奶源、生产、检测到研发，每一个环节都坚持做好点点滴滴，确保高品质。每一天 为明天。

- 自然造就品质奶源：辽阔牧场、12国优质牧草、五大洲优良奶牛、国际化管理团队。
- 管理确保品质产品：全球样板工厂、无菌全自动车间、闪蒸、均质工艺成就独特口感。
- 标准验证品质内涵：严格的检测及完善的食品追溯体系。
- 科技开创品质生活：汇聚全球16家乳业研发机构、打造"乳业硅谷"、共创美好明天。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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 implemented throughout the year.

Operating Expenses

In 2009, as the sales of the Group recovered and business operations resumed to be 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 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 of 2.5 percentage points as compared with last year, as the Group's business operations resumed to be 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%. During the year under review, 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, 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 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 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 the 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 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 showed 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 surging 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 from 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 can achieve their 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, leading 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 a variety of Chinese tastes associated with health. *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 nutritious grain replacements 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

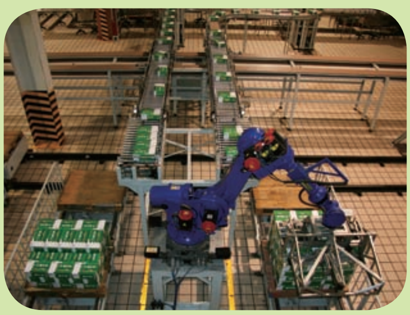
Revenue from other dairy products amounted to RMB289.2 million (2008: RMB170.4 million), accounting for 1.1% (2008: 0.7%) of the revenue of the Group. In regard of milk powder, *Jinzhuang Jiazhi*™ (*金裝佳智*™) infant formula, developed by the business line ***MENGNIU ARLA*** (***蒙牛阿拉***) of the Group, has 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.

Management Discussion and Analysis

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 control system, so as to fulfill its commitment 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, during the year, the Group 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 online 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 partnership 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 diversed 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, making joint efforts 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 and methane fluids from large ranches are used as fuel for power generation and residue from the process is manufactured into organic fertilizer or used for irrigating the ranches. During the year, the Group stepped up its efforts to become a global climate citizen, for it not only earnestly pursued sustainable business 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, which aroused sympathy for community care in people's hearts, 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 Revision)" (《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 promoted integration of the industry, 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 these 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.

Focus on the Development of High-end Dairy Products and 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.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Niu Gensheng, aged 52, is the Chairman of the Board of Directors of the Company and is one of the founders of Inner Mongolia Mengniu Dairy (Group) Company Limited ("Inner Mongolia Mengniu"). Mr. Niu graduated from Inner Mongolia University with a degree in Administration and Management and obtained a Master's degree in Enterprise Management at the Chinese Academy of Social Sciences Graduate School. With his extensive experience and insights in China's dairy industry, Mr. Niu receives high reputation in the industry. In 2007, Mr. Niu was elected as one of "China's Most Influential Business Leaders" for the fifth consecutive year, honored "2007 Hong Kong Bauhinia Award". Mr. Niu is devoted to charity and was ranked third in the 2007 Hurun Top 10 for Charity. Mr. Niu currently serves as the Deputy Chairman of Dairy Association of China, China Dairy Industry Association, and the Second China National Committee of International Dairy Federation. Mr. Niu is also an independent non-executive director of Alibaba.com Limited, a company listed in Hong Kong and an independent director of Shanghai Metersbonwe Fashion & Accessories Company, a company listed in Shenzhen.

Mr. Yang Wenjun, aged 43, is the Chief Executive Officer ("CEO") of the Company and Inner Mongolia Mengniu. Prior to the appointment as Inner Mongolia Mengniu's CEO, Mr. Yang was Inner Mongolia Mengniu's Vice President and the General Manager of the liquid milk division, and has solid dairy industry experience. Mr. Yang graduated from Inner Mongolia Light Industry Institute in dairy products and he also holds a Master's degree from Inner Mongolia Agricultural University. Mr. Yang was jointly elected as "2007 Person of the Year in China" by Global Sources and World Entrepreneur. Mr. Yang also received "Special Award of Corporate Culture Building" in 2007 Annual Conference of National Corporate Culture Building.

Mr. Sun Yubin, aged 43, is a Vice President and one of the founders of Inner Mongolia Mengniu. Mr. Sun graduated from Inner Mongolia University with a degree in Economic Management. Mr. Sun previously served as secretary of the Party committee and the General Manger of ice cream department of Inner Mongolia Mengniu. Mr. Sun has solid dairy industry experience. Mr. Sun resigned from his position as executive Director of the Company with effect from 27 August 2009.

Mr. Yao Tongshan, aged 53, is the Chief Financial Officer of the Company. Mr. Yao joined Inner Mongolia Mengniu in October 2001. Mr. Yao graduated from Tianjin University with a Master's degree in Engineering. Mr. Yao previously served as a director of the international credit department at China Construction Bank (Inner Mongolia branch), a manager of investment banking division at a state-owned energy resources investment company and the chief financial officer of Inner Mongolia Mengxi High-tech Group (內蒙古蒙西高新技術集團). Mr. Yao has extensive experience in finance and investment management. Mr. Yao resigned from his positions as an executive Director and the Chief Financial Officer of the Company with effect from 1 March 2010.

Mr. Bai Ying, aged 39, is a Vice President and the general manager of UHT milk division of the Inner Mongolia Mengniu. He joined Inner Mongolia Mengniu upon its establishment in 1999 and has extensive experiences in dairy industry. Mr. Bai graduated with a Master degree from Inner Mongolia Agriculture University. In 2004, Mr. Bai was granted the "Outstanding Contribution Award for Development of Western Region of Inner Mongolia Autonomous Region" and was elected as one of the "Ten Outstanding Young Persons in Inner Mongolia".

Directors and Senior Management

Mr. Wu Jingshui, aged 44, was appointed as an executive Director and the Chief Financial Officer of the Company both with effect from 1 March 2010. Mr. Wu is also a Vice President in Finance of Inner Mongolia Mengniu. Mr. Wu graduated from Inner Mongolia Light Industry Institute majoring in financial accounting and holds a Master degree from Inner Mongolia Agricultural University. He also holds a senior accountant qualification. Before being appointed as the Vice President in Finance of Inner Mongolia Mengniu, Mr. Wu served as the Chief Financial Officer of liquid milk division and the Chief Financial Officer of Inner Mongolia Mengniu, and has extensive experience in financial management.

Mr. Ding Sheng, aged 42, was appointed as an executive Director with effect from 1 March 2010. Mr. Ding is also a Vice President and the general manager of yogurt division of Inner Mongolia Mengniu. Mr. Ding joined Inner Mongolia Mengniu in 2003 and has solid dairy industry experience. Mr. Ding graduated from Nankai University with a Master's degree in Business Administration. Mr. Ding was awarded as an "Outstanding Staff of Dairy Industry in Inner Mongolia" in 2006.

NON-EXECUTIVE DIRECTORS

Mr. Ning Gaoning, aged 51, is a Vice-Chairman of the Board of Directors of the Company. Mr. Ning is currently the chairman of COFCO Corporation and COFCO (Hong Kong) Limited, an executive director and chairman of China Foods Limited, a company listed in Hong Kong, a non-executive director and chairman of China Agri-Industries Holdings Limited, a company listed in Hong Kong, a non-executive director of CPMC Holdings Limited, a company listed in Hong Kong, an independent director of Hua Yuan Property Co., Ltd., a company listed in Shanghai, and a director of Smithfield Foods, Inc., a company listed in New York. Mr. Ning is also a director of BOC International Holdings Limited. Mr. Ning was a non-executive director of Lippo China Resources Limited, a company listed in Hong Kong, from December 1998 to August 2009. Before joining COFCO Corporation, Mr. Ning held various positions such as vice-chairman, director and general manager of China Resources (Holdings) Company Limited. Mr. Ning has over 20 years of experience in corporate management, investment and corporate finance, business restructurings and governmental relations. Mr. Ning graduated from Shandong University in China with a Bachelor's degree in Economics and from the University of Pittsburgh in the United States with a Master of Business Administration degree in Finance.

Mr. Jiao Shuge (alias Jiao Zhen), aged 44, is a Vice-Chairman of the Board of Directors. Mr. Jiao joined the Group in September 2002 and is currently the general manager of CDH China Fund, L.P. Mr. Jiao received a Bachelor's degree in Mathematics from Shandong University and a Master's degree in Engineering from the Ministry of Space Industry Institute. Mr. Jiao also serves as a non-executive director of China Yurun Food Group Limited and China Shanshui Cement Group Limited, both companies listed in Hong Kong and a director of Joyoung Company Limited, a company listed in Shenzhen.

Mr. Julian Juul Wolhardt, aged 36, joined the Group in January 2006. Mr. Wolhardt is currently a director of KKR Asia Limited focusing on private equity transactions in the Greater China region. Mr. Wolhardt is a CPA and CMA and received a B.S. with honors in Accounting from the University of Illinois (Urbana-Champaign).

Mr. Yu Xubo, aged 44, is currently the president of COFCO Corporation and a director of COFCO (Hong Kong) Limited. He is also an executive director and the managing director of China Agri-Industries Holdings Limited, a company listed in Hong Kong. Mr. Yu was an executive director of China Foods Limited, a company listed in Hong Kong, from January 2006 to March 2007. Mr. Yu holds a Bachelor's degree in Economics from the University of International Business and Economics in Beijing and an Executive Master of Business Administration degree from China Europe International Business School in Shanghai.

Directors and Senior Management

Mr. Ma Jianping, aged 46, is currently the director of the strategy department of COFCO Corporation. He is also a non-executive director of China Foods Limited, a company listed in Hong Kong, and a director of COFCO Property (Group) Co., Ltd., a company listed in Shenzhen. Mr. Ma graduated from University of International Business and Economics in Beijing with a degree of Executive Master of Business Administration. Mr. Ma has extensive experience in corporate finance, investment, strategic planning and management and worked in Japan for over 5 years.

Mr. Fang Fenglei, aged 58, is Chairman of HOPU Investment Management Co., Ltd. (HOPU) and Chairman of Goldman Sachs Gaohua Securities Company Limited. Previously, Mr. Fang was a deputy CEO of China International Capital Corporation Limited, CEO of BOC International Holdings Limited and CEO of ICEA Finance Holdings Limited. He was an independent non-executive director of Central China Real Estate Limited, a company listed in Hong Kong, from January 2008 to December 2009. Mr. Fang holds a Bachelor of Arts degree from Sun Yat-sen University.

Mr. Ma Wangjun, aged 45, was appointed as a non-executive Director with effect from 1 March 2010. Mr. Ma is currently the director of the finance department of COFCO Corporation. He is also a non-executive director of China Agri-Industries Holdings Limited, a company listed in Hong Kong. He was a director of COFCO Tunhe Co., Ltd., a company listed in Shanghai, from July 2005 to January 2007. Mr. Ma holds a Bachelor's degree in Economics from Beijing Technology and Business University and a degree in Executive Master of Business Administration from Cheung Kong Graduate School of Business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Huaibao, aged 72, graduated from People's University of China. Mr. Wang served as a Deputy Chairman of the Dairy Association of China and the Chairman and the general manager of Beijing Milk Company (now Beijing Sanyuan Food Company Limited). Mr. Wang also served as the Chairman of the China Dairy Industry Association. Mr. Wang was appointed as an independent director of Inner Mongolia Mengniu on 18 October 2002 and became an independent director of the Company on 23 February 2004. Mr. Wang has resigned from his position of independent non-executive Director of the Company with effect from 1 May 2009.

Mr. Zhang Julin, aged 66, is a professor of accounting. Mr. Zhang graduated from the Economics Department of Lanzhou University. Mr. Zhang served as an assistant dean to the Inner Mongolia Finance and Economics University. Mr. Zhang is currently a Vice Chairman of the Inner Mongolia Audit Society and an independent director of Inner Mongolia Bao Tou Steel Union Co., Ltd., a company listed in Shanghai. Mr. Zhang was an independent director of Inner Mongolia Lantai Industrial Co., Ltd, a company listed in Shanghai, from April 2002 to May 2009. Mr. Zhang is also a member of the Chinese Institute of Certified Public Accountants. Mr. Zhang was appointed as an independent director for Inner Mongolia Mengniu on 18 October 2002 and became an independent director of the Company on 23 February 2004.

Mr. Liu Fuchun, aged 64, an independent non-executive director of the Company, was a graduate of the Beijing Foreign Trade Institute and now a senior commerce specialist. Mr. Liu was the deputy consulate of the Chinese Consulate-General in Vancouver. He also worked at various companies in the past, including serving as an officer in the finance department, the business planning department, and the general office of COFCO Limited (COFCO). He was also an officer of COFCO's sales representative office in the US, the deputy head and head of COFCO's cereals and oils department and the general manager, executive director, deputy president and president of Top Glory (London) Ltd., which was based in the United Kingdom. Currently, Mr. Liu is an independent non-executive director of DaChan Food (Asia) Limited, a company listed in Hong Kong and an independent director of China Aviation Oil (Singapore) Corporation Ltd., a company listed in Singapore.

Directors and Senior Management

Mr. Zhang Xiaoya, aged 48, was a graduate of the Shandong University and the school of management at the Beihang University and is now a senior economist. Mr. Zhang has served various companies in the past including project manager of the Trust Investment Company for Development of Rural Villages in China, director and deputy general manager of Dalian Zhong Xing Industrial Company and the head of investment consulting department of Zhong Zhi Investment Consulting Company. Currently, Mr. Zhang is a director and the president of Airmedia which was listed on NASDAQ in the US in 2007.

Mr. Li Jianxin, aged 45, was a senior economist. Mr. Li studied finance as a graduate student at the School of Economics, Peking University. Mr. Li previously served as a secretary of commission, director of general manager office and deputy director of the policy research office for China Lucky Film Corporation. Mr. Li was appointed as an independent director for Inner Mongolia Mengniu on 18 October 2002 and became an independent director of the Company on 23 February 2004. Mr. Li passed away unexpectedly on 20 February 2009 due to a heart attack. Before his death, Mr. Li served as a director and the secretary to the board of directors at Lucky Film Co. Ltd., a company listed in Shanghai.

SENIOR MANAGEMENT

Mr. Lu Jianjun, aged 33, is the Chief Administrative Officer of the Company and the Secretary of the Board of Director of Inner Mongolia Mengniu. Mr. Lu was graduated from Inner Mongolia Normal University with a degree in Chinese. Mr. Lu joined the Group in June 2000, and served as Secretary to CEO Office, Secretary to CEO, Secretary to Chairman of the Board of Directors Office, Executive Assistant to Chairman.

Mr. Yao Haitao, aged 48, is a Vice President in Administration of Inner Mongolia Mengniu. Mr. Yao joined Inner Mongolia Mengniu in 2003. He graduated from Inner Mongolia Finance and Economics College with a Bachelor's degree in Economics. Mr. Yao has solid experience in administrative management.

Ms. Zhao Yuanhua, aged 47, is a Vice President in Sales and Marketing of Inner Mongolia Mengniu. Ms. Zhao joined Inner Mongolia Mengniu in 2000. She graduated from Baotou University of Iron and Steel Technology with a Bachelor's degree in Technology. Ms. Zhao has solid experience in sales and marketing.

Mr. Liu Weixing, aged 49, is a Vice President in Technical Department of Inner Mon-golia Mengniu. Mr. Liu joined Inner Mongolia Mengniu upon its establishment in 1999 and brings extensive experiences in processing techniques and quality control within the dairy industry. Mr. Liu graduated with a Master's degree from Inner Mongolia Agriculture University. He was awarded the Hohhot City Second Prize in Technological Advancement in 2004 and was honoured as the Excellent Leader in Quality Control Activities in the District in 2008. Mr. Liu was also elected as the Standing Committee Member of the Second Committee of the Dairy Association of Inner Mongolia in 2009 and is also a member of the Editorial Board of Dairy Industry.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Kwok Wai Cheong, Chris, aged 37, the Financial Controller and Company Secretary of the Company, joined the Group in May 2007. Prior to joining the Group, Mr. Kwok was the Financial Controller of a Hong Kong Main Board listed company and he also had served in an international accounting firm. Mr. Kwok graduated from The Hong Kong Polytechnic University with a Bachelor's degree in Accountancy. Mr. Kwok is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants.

A good corporate citizen addressing global climate change through a green GDP

As a leader in the dairy industry, Mengniu's solid contributions to green GDP growth and dedication to become a good global climate citizen over the last decade have earned itself widespread recognition throughout the community

Mengniu contributes to reducing CO_2 emissions by forging a green supply chain and striving to create a low carbon economy

Everybody wins with environmental protection–

sustainable development strikes a balance between ecological responsibility and economic growth

Corporate Governance Report

The Company is dedicated to ensure high standards of corporate governance with an emphasis on a diligent Board of Directors (the "Board"), sound internal control, and increasing transparency and accountability to shareholders. The Board acknowledges that good corporate governance practices and procedures are beneficial to the Group and its shareholders. The Company is committed to improving those practices and maintaining its ethical corporate culture.

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 of Hong Kong Limited (the "Listing Rules") as its own code of corporate governance practices.

Throughout the year, the Group has fully complied with all the compulsory code provisions set out in the CG Code.

THE BOARD

As at 31 December 2009, the Board comprised 13 Directors, including four executive Directors, namely, Mr. Niu Gensheng, Mr. Yang Wenjun, Mr. Yao Tongshan and Mr. Bai Ying, six non-executive Directors, namely, Mr. Ning Gaoning, Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Yu Xubo, Mr. Ma Jianping and Mr. Fang Fenglei and three independent non-executive Directors, namely, Mr. Zhang Julin, Mr. Liu Fuchun and Mr. Zhang Xiaoya. The Chairman of the Board is Mr. Niu Gensheng and the Chief Executive Officer of the Company is Mr. Yang Wenjun.

The Board is responsible for the leadership and management of the Company. Key responsibilities of the Board comprise formulation of the Group's overall strategies and policies, setting of performance and management targets, evaluation of business performance and supervision of management's performance. The management was delegated the authority and responsibility by the Board for the management and operations of the Group. In addition, the Board has also delegated various responsibilities to the Board Committees as detailed in this report.

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 due to a heart attack. Following the passing away of Mr. Li, the Company had only two independent non-executive Directors and two audit committee members which fell below the minimum number of three independent non-executive Directors and three audit committee members as required under Rule 3.10(1) and Rule 3.21 of the Listing Rules respectively. In this regard, the Company has appointed a suitable candidate, with effect on 1 May 2009, to fill the vacancy within the time period prescribed under the Listing Rules.

Biographies of the Directors are set out on pages 24 to 27 of the annual report, which demonstrates a diversity of skills, expertise, experience and qualifications. There is no other material financial, business or relevant relationships among the Directors.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The independent non-executive Directors possess appropriate professional qualifications, or accounting or related financial management expertise. Their role is to provide independent and objective opinions to the Board for its consideration and decisions. The Company has received annual confirmation of independence from Mr. Zhang Julin, Mr. Wang Huaibao, Mr. Liu Fuchun and Mr. Zhang Xiaoya in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all existing independent non-executive Directors are independent within the definition of the Listing Rules. The Company also considers Mr. Li Jianxin to be independent under the Listing Rules during his term of office.

BOARD PROCEEDINGS

The Board meets at least four times a year and additional operational meetings are also held, when required. The Company Secretary is responsible for preparing agenda and notices for the meetings. Senior management of the Group also provides the Directors with relevant information on a timely basis regarding key business developments of the Group and issues affecting the Group. Agenda and other information packages are normally delivered to the Directors before the meetings. The Directors also have independent access to the senior management in respect of operating issues. The Directors may take independent professional advice where appropriate to discharge their duties, at the Company's expenses.

During the year ended 31 December 2009, the Board held eight meetings. The attendance of each of the directors at the Board meetings is as follows:

Directors	Attendance of Board meetings in 2009[(4)]
Niu Gensheng	8/8
Yang Wenjun	6/8
Sun Yubin[(1)]	6/6
Yao Tongshan	7/8
Bai Ying	5/8
Ning Gaoning[1]	1/3
Jiao Shuge (alias Jiao Zhen)	8/8
Julian Juul Wolhardt	7/8
Yu Xubo[1]	1/3
Ma Jianping[1]	3/3
Fang Fenglei[1]	2/3
Wang Huaibao[2]	2/2
Zhang Julin	8/8
Li Jianxin[3]	1/1
Liu Fuchun[2]	5/6
Zhang Xiaoya[2]	6/6

Notes:

(1) Mr. Ning Gaoning, Mr. Yu Xubo, Mr. Ma Jianping and Mr. Fang Fenglei were all appointed as non-executive Directors with effect from 27 August 2009. Mr. Sun Yubin resigned as executive Director with effect from 27 August 2009.

(2) Mr. Liu Fuchun and Mr. Zhang Xiaoya were both appointed as independent non-executive Director with effect from 1 May 2009. Mr. Wang Huaibao resigned as independent non-executive Director on 1 May 2009.

(3) Mr. Li Jianxin passed away on 20 February 2009.

(4) During the year, the Company held four quarterly meetings and four other meetings to handle operational-level matters. According to the Company's articles of association, the quorum for convening a Board meeting is two members.

Minutes of meetings of the Board and Board Committees are kept by the Company Secretary of the Company and are not only open for inspection by the Directors but also sent to the Directors for their records. All Directors have access to the Company Secretary of the Company, who is responsible for ensuring that the Board procedures are complied with and advising the Board on compliance matters.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The role of the Chairman is separate from that of the Chief Executive Officer to ensure a balance of power and authority. The Chairman is responsible for overseeing the functioning of the Board while the Chief Executive Officer is responsible for managing the Group's business.

The Chairman shall ensure that Board meetings are planned and conducted effectively and all Directors are properly briefed on issues arising at Board meetings. He is also responsible for ensuring that the directors receive adequate information in a timely manner, which must be complete and reliable.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each Director has entered into a service contract with the Company for a term of three years. The Directors are subject to retirement by rotation and re-election at each annual general meeting of the Company in accordance with article 112 of the Company's articles of association. The Directors appointed as an addition to the Board or to fill a casual vacancy on the Board shall be subject to re-election by the shareholders at the first general meeting after the appointment.

BOARD COMMITTEES

To oversee particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Company has established three Board Committees under the Board, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, each of which is governed by specific terms of reference approved by the Board, covering its functions, duties and powers. The terms of reference of the respective Board Committees have complied with the CG Code provisions and are available for public inspection at the Company's principal place of business in Hong Kong. The Committees have been structured to include a majority of independent non-executive Directors as members in order to reinforce independence. During the year, the Company also established one additional Board Committee, namely the Strategy and Development Committee. The duties and responsibilities of this Committee are detailed below.

REMUNERATION COMMITTEE

As at 31 December 2009, the Remuneration Committee comprised five members, three of whom are independent non-executive Directors (Mr. Zhang Julin, Mr. Liu Fuchun and Mr. Zhang Xiaoya) and the remaining two members are non-executive Directors (Mr. Julian Juul Wolhardt and Mr. Yu Xubo). The Remuneration Committee is chaired by Mr. Julian Juul Wolhardt.

The duties of the Remuneration Committee are to review annually and recommend to the Board the overall remuneration policy for the directors and senior management to ensure that the level of remuneration is linked to their level of responsibilities undertaken. The Remuneration Committee shall also evaluate annually the performance of the directors and the senior management and recommend to the Board specific adjustments in their remuneration and/or reward payments.

The Company's policy on remuneration is to maintain fair and competitive packages based on business needs and industry practice. For determining the level of fees paid to members of the Board, market rates and factors such as each director's workload and required commitment will be taken into account. In addition, factors comprising economic and market situations, individual contributions to the Group's results and development as well as individual potential are considered when determining the remuneration packages of executive Directors.

During the year, the Remuneration Committee had performed the following:

– assessed the performance of the Directors and senior management;

– reviewed and approved the remuneration for the Directors and senior management;

– reviewed the remuneration policy and recommended to the Board; and

– reviewed the proposal of granting of share options according to the Company's share option scheme, and made recommendations to the Board.

The Remuneration Committee held three meetings during the year ended 31 December 2009 and two meetings up to the date of this report in 2010. The attendance record of each member of the Remuneration Committee for the year is set out below:

Directors	Attendance of Remuneration Committee Meeting in 2009
Wang Huaibao *(chairman)*[1]	1/1
Julian Juul Wolhardt *(chairman)*[1]	3/3
Zhang Julin	3/3
Liu Fuchun[2]	1/1
Zhang Xiaoya[1]	2/2
Yu Xubo[2]	1/1

Notes:

(1) Mr. Wang Huaibao resigned as a member of Remuneration Committee and the Chairman of the Remuneration Committee with effect from 1 May 2009. Mr. Zhang Xiaoya and Mr. Julian Juul Wolhardt were appointed as a member of the Remuneration Committee and the Chairman of the Remuneration Committee, respectively, both with effect from 1 May 2009.

(2) Mr. Yu Xubo and Mr. Liu Fuchun were appointed as members of the Remuneration Committee, both with effect from 27 August 2009.

NOMINATION COMMITTEE

As at 31 December 2009, the Nomination Committee comprised five members, three of whom are independent (Mr. Zhang Julin, Mr. Liu Fuchun and Mr. Zhang Xiaoya) and the remaining two members are non-executive Directors (Mr. Ning Gaoning and Mr. Jiao Shuge). The Nomination Committee is chaired by Mr. Jiao Shuge.

The responsibilities of the Nomination Committee are to review the structure, size and composition, including the skills, knowledge and experiences of the Board and make recommendations to the Board regarding any proposed changes. The Nomination Committee is also responsible for identifying and nominating suitable candidates qualified to become Board members and makes recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors if necessary, in particular, candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result in the constitution of a stronger and more diverse Board. In the selection process, the Nomination Committee makes reference to criteria including, inter alia, reputation for integrity, accomplishment and experience in the dairy industry, professional and educational background, and commitment in respect of available time.

The Nomination Committee held two meetings in the year ended 31 December 2009 to discuss mainly the nomination of two independent non-executive Directors, namely, Mr. Liu Fuchun and Mr. Zhang Xiaoya and four additional non-executive Directors, namely, Mr. Ning Gaoning, Mr. Yu Xubo, Mr. Ma Jianping and Mr. Fang Fenglei.

The Nomination Committee held two meetings during the year ended 31 December 2009 and one meeting up to the date of this report in 2010. The attendance record of each member of the Nomination Committee for the year is set out below:

Directors	Attendance of Nomination Committee Meeting in 2009
Jiao Shuge *(chairman)*	2/2
Ning Gaoning[2]	0/0
Wang Huaibao[1]	1/1
Zhang Julin	2/2
Zhang Xiaoya[1]	1/1
Liu Fuchun[2]	0/0

Notes:

(1) Mr. Wang Huaibao resigned as a member of Nomination Committee with effect from 1 May 2009. Mr. Zhang Xiaoya was appointed as a member of Nomination Committee with effect from 1 May 2009.

(2) Mr. Ning Gaoning and Mr. Liu Fuchun were appointed as members of Nomination Committee with effect from 27 August 2009 and no meeting has been convened after their appointment.

AUDIT COMMITTEE

As at 31 December 2009, the Audit Committee comprised three non-executive Directors, two of whom are independent and possess the relevant professional qualifications required under the Listing Rules. The Committee is chaired by Mr. Zhang Julin, an independent non-executive Director.

The Audit Committee serves as a focal point for communication between other directors, the external auditors, and the management as their duties relate to financial and other reporting, internal controls and the auditing. The Audit Committee assists the Board in fulfilling its responsibilities by providing an independent review of financial reporting and by satisfying themselves as to the effectiveness of the Company's internal controls and as to the efficiency of the audits.

During the year, the Audit Committee has performed the following:

– met with the external auditors to discuss the general scope and findings of their audit and interim review works;

– reviewed external auditors' management letter and management's response;

– reviewed and recommended to the Board for approval of the external auditors' remuneration;

– made recommendations to the Board on the re-appointment of the external auditors;

– reviewed the external auditors' independence, objectivity and the effectiveness of the audit process;

– reviewed and monitored the integrity of financial statements, annual and interim reports, and annual and interim announcements of the Company; and

– discussed auditing, internal control, risk management and financial reporting matters before recommending them to the Board for approval.

All issues raised by the external auditors and the Audit Committee have been addressed by the senior management. The work and findings of the Audit Committee have been reported to the Board. During the year, no issues brought to the attention of the senior management and the Board were of sufficient significance for disclosure in the annual report.

The Audit Committee held four meetings in the year ended 31 December 2009 and two meetings up to the date of this report in 2010. The attendance record of each member of the Audit Committee in 2009 is set out below:

Directors	Attendance of Audit Committee Meetings in 2008
Zhang Julin *(chairman)*	4/4
Jiao Shuge	3/4
Li Jianxin(1)	0/0
Liu Fuchun(2)	3/3

Notes:

(1) Mr. Li Jianxin passed away on 20 February 2009.

(2) Mr. Liu Fuchun was appointed as a member of the Audit Committee with effect from 1 May 2009.

Other than the reporting responsibilities of the Company's auditors (please refer to the independent auditors' report set out on pages 49 to 50), the Directors acknowledge their responsibility for preparing the financial statements of the Group and the Company which give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2009 and the profit and cash flows of the Group for the year then ended.

INTERNAL CONTROL

The Board is responsible for maintaining an established and effective internal control system, to safeguard the assets of the Group and the interest of shareholders, and for reviewing its effectiveness regularly. Aiming at strengthening the risk management culture of the Group and minimizing the impacts of the major risks on the business and earnings of the Group, the senior management of the Group meets to actively evaluate and review the significant risks to which the Group is exposed and reports to the Board on a regular basis. The Group also appoints external consultants, when considered appropriate, to review the Group's internal control, working systems and workflows, as well as the management systems, and to make suggestions on system enhancement.

Besides strict implementation of a performance assessment system and training programs for its staff, the Group has in place a series of written working systems in respect of business, production, finance, legal compliance and administration aspects, to ensure the significant risks, to which the Group is exposed, are contained:

– Control environment – The Group has established defined organizational structures. Authority to operate various business functions is delegated to respective management within limits set by senior management of the headquarters or the executive Directors. The senior management meets on a regular basis to discuss and approve business strategies, plans and budgets prepared by individual business units. The performance of the Group is reported to the Board on a regular basis.

– Risk assessment – The Group identifies, assesses and ranks the risks that are most relevant to the Group's business according to their likelihood, financial consequence and reputational impact on the Group.

– Control activities – Policies and procedures are set for each business function, in which approvals, authorization, verification, recommendations, performance reviews, asset security and segregation of duties are included.

– Information and communication – The Group's working systems document operational procedures of all business units, as well as authorization and approval procedures for significant decision making.

– Monitoring – The Group adopts a control and risk self-assessment methodology, continuously assessing and managing its business risks by way of assessment by the headquarters of the Group and each business unit on a regular basis, and communication of key control procedures to employees.

During the year ended 31 December 2009, the Board had examined the internal control system and reviewed the evaluation performed by the Audit Committee, the management and internal and external auditors, on the effectiveness of internal control. No significant areas of concern were identified.

The Board also reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting functions and their training programmes and budget and considered that they are adequate.

EXTERNAL AUDITORS

The Group's independent external auditors are Ernst & Young. The Audit Committee is responsible for the appointment of the external auditors and reviewing the non-audit functions performed by the external auditors for the Group. In particular, the Committee will, prior to the execution of contract with external auditors and the commencement of their duties, consider whether the non-audit functions will result in any potential material conflict of interest.

Details of fees paid or payable to Ernst & Young for the year ended 31 December 2009 are as follows:

Services rendered	**2009** ***RMB'000***	2008 *RMB'000*
Annual audit	**3,250**	3,250
Interim review	**540**	535
	3,790	3,785

The Board is satisfied with the audit fees, process and effectiveness of Ernst & Young and has recommended their reappointment as the Company's external auditors at the forthcoming annual general meeting.

STRATEGY AND DEVELOPMENT COMMITTEE

The Company has established a Strategy and Development Committee on 27 August 2009, which comprised one executive Director, Mr. Yang Wenjun and two non-executive Directors, Mr. Ma Jianping and Mr. Fang Fenglei. The Strategy and Development Committee is chaired by Mr. Ma Jianping.

The principal duties of the Strategy and Development Committee include drawing up long-term development strategies and significant investments on financing plans of the Company, proposing significant capital investment for operation projects, and conducting studies and making recommendation on important matters that would affect the development of the Company.

No meeting has been convened by the Strategy and Development Committee during 2009.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted, in terms no less exacting than, the standard required by the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules as the Company's code of conduct and rules governing dealings by all the directors in the securities of the Company ("Model Code"). Having made specific enquiry of all the Directors, the Company confirms that, during the year ended 31 December 2009, all the Directors have strictly complied with the Model Code.

INVESTOR RELATIONS AND COMMUNICATIONS

The Company adopts a proactive policy in promoting investor relations and communications. Regular meetings are held with institutional investors and financial analysts to ensure two-way communications on the Company's performance and development. When the Company announces its interim and annual results, briefings are conducted to apprise investors, analysts and the press of the Group's operating results as well as business strategies and outlook. Investor relations website is updated on a timely basis to ensure that investors are able to have access to the Company's information, latest news and reports. Nine out of the ten directors, including the Chairman, have attended the annual general meeting in June 2009 to be available to answer questions at the meeting.

During the year, an extraordinary general meeting was held on 27 August 2009, nine out of ten Directors including the Chairman for the time being attended. The following proposals were approved:

(1) Amendments of the Company's Article of Association; and

(2) The elections of Mr. Ning Gaoning, Mr. Yu Xubo, Mr. Ma Jianping and Mr. Fang Fenglei as non-executive Directors of the Company.

Separate resolutions are proposed at general meetings for each substantially separate issue, including election of directors. Poll voting has been adopted for decision-making at shareholders' meeting. Details of poll voting procedures were included in the circular dispatched to the shareholders of the Company. The circular also included relevant details of proposed resolutions and biographies of the Directors standing for election.

Report of the Directors

The board of directors (the "Directors") presents its report together with the audited financial statements of the Company and the Group for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES AND ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the main Group's operating subsidiary, Inner Mongolia Mengniu Dairy (Group) Company Limited ("Inner Mongolia Mengniu"), and its subsidiaries are manufacturing and distribution of dairy products including liquid milk (comprising UHT milk, milk beverages and yogurt), ice cream and other dairy products (such as milk powder) in China.

Particulars of the Company's subsidiaries are set out in note 18 to the financial statements.

The Group's revenue is derived principally from business activities in China. An analysis of the Group's performance for the year ended 31 December 2009 by business segments is set out in note 3 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement on page 51.

The Directors have recommended the payment of a final dividend of RMB0.1413 (2008: nil) per share, amounting to approximately RMB245,465,000 (2008: nil) in total, to shareholders whose names appear on the register of members on 9 June 2010.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group and the Company during the year are set out in note 13 to the financial statements.

RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 55 and note 38 to the financial statements. The Company's distributable reserves, calculated in accordance with statutory provisions applicable in the Company's place of incorporation, amounted to approximately RMB8,075,450,000 as at 31 December 2009 (2008: RMB5,333,876,000).

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately RMB12,901,000 (2008: RMB20,050,000).

SHARE CAPITAL AND SHARE OPTIONS

Details of movement in the Company's share capital and share options during the year are set out in notes 37 and 40 to the financial statements.

Report of the Directors

DIRECTORS

The Directors during the year ended 31 December 2009 were:

Executive Directors

Mr. NIU Gensheng	
Mr. YANG Wenjun	
Mr. YAO Tongshan	
Mr. BAI Ying	
Mr. SUN Yubin	(resigned on 27 August 2009)

Non-Executive Directors

Mr. NING Gaoning	(appointed on 27 August 2009)
Mr. JIAO Shuge (alias JIAO Zhen)	
Mr. Julian Juul WOLHARDT	
Mr. YU Xubo	(appointed on 27 August 2009)
Mr. MA Jianping	(appointed on 27 August 2009)
Mr. FANG Fenglei	(appointed on 27 August 2009)

Independent Non-Executive Directors

Mr. ZHANG Julin	
Mr. LIU Fuchun	(appointed on 1 May 2009)
Mr. ZHANG Xiaoya	(appointed on 1 May 2009)
Mr. WANG Huaibao	(resigned on 1 May 2009)
Mr. LI Jianxin	(passed away on 20 February 2009)

Subsequent to the end of the reporting period, on 1 March 2010, Mr. Yao Tongshan resigned as an executive director of the Company. On the same date, Mr. Wu Jingshui and Mr. Ding Sheng were appointed as executive directors and Mr. Ma Wangjun was appointed as a non-executive director of the Company.

In accordance with Article 112 of the Company's articles of association, Mr. Niu Gensheng, Mr. Jiao Shuge, Mr. Julian Juul Wolhardt and Mr. Zhang Julin, will retire by rotation and Mr. Wu Jingshui, Mr. Ding Sheng and Mr. Ma Wangjun will retire in accordance with the article of association and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company considers that Mr. Wang Huaibao, Mr. Zhang Julin, Mr. Liu Fuchun and Mr. Zhang Xiaoya are independent pursuant to the criteria set out in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and that a confirmation of independence has been received from each of them. The Company also considers Mr. Li Jianxin to be independent under the Listing Rules during his term of office.

Following the passing away of Mr. Li Jianxin, 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 prescribed under the Listing Rules.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors and the senior management are set out on pages 24 to 27.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has service contract with the Company which is not determined by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS, LONG AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2009, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance) ("SFO") as recorded in the register required to be kept under Section 352 of SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Long positions in shares of the Company/Associated Corporation:

Name of Director	Company/Name of Associated Corporation	Nature of Interest	Total Number of Ordinary Shares	Percentage of the Company's/ Associated Corporation's Issued Share Capital
Niu Gensheng	Company	Personal Interest	68,781,022 (L)	3.96%
	Company	Corporate Interest *(Note 1)*	100,412,466 (L)	5.78%
	Company	Interests under Concert Party Agreement *(Note 2)*	263,533,393 (L)	15.17%
	Inner Mongolia Mengniu	Personal Interest	21,111,225 (L)	2.63%

Name of Director	Company/Name of Associated Corporation	Nature of Interest	Total Number of Ordinary Shares	Percentage of the Company's/ Associated Corporation's Issued Share Capital
Yang Wenjun	Company	Personal Interest	1,506,196 (L)	0.09%
	Company	Interests under Concert Party Agreement *(Note 2)*	263,533,393 (L)	15.17%
	Inner Mongolia Mengniu	Personal Interest	2,404,453 (L)	0.30%
Bai Ying	Company	Personal Interest	148,837 (L)	0.01%
	Company	Interests under Concert Party Agreement *(Note 2)*	263,533,393 (L)	15.17%
	Inner Mongolia Mengniu	Personal Interest	237,600 (L)	0.03%

Notes:

1. 100,412,466 shares are held by Yinniu Milk Industry Limited ("Yinniu"), a shareholder of the Company, which is controlled as to 96.26% by Xin Niu International Limited ("Xin Niu"). Niu Gensheng, by virtue of a proxy, has been delegated voting rights of the shares in Yinniu held by Xin Niu.

2. On 24 July 2008, Xin Niu, Yinniu, Jinniu Milk Industry Limited ("Jinniu"), Niu Gensheng and a group of 21 individuals comprising Directors and management staff of the Group (the "Management Shareholders") (together, the "Concert Parties") entered into a concert party agreement (the "Concert Party Agreement") regarding their interest in the Company. The Concert Party Agreement constitutes an agreement under section 317 of the SFO. Details of the shareholding of the Concert Parties (who are not Directors of the Company) are set out in the section headed "Substantial Shareholders' Interests" below.

(L) Indicates a long position.

Certain Directors of the Company have been granted options under the Company's share option scheme, details of which are set out in the section "Share Option Scheme" below.

Save as disclosed above, as at 31 December 2009, none of the Directors and the Chief Executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2009, the interests or short positions of substantial shareholders, other than the Directors or the Chief Executives of the Company whose interests, long and short positions in the shares of the Company and of its associated corporations (within the meaning of Part XV of the SFO) are set out above, in the shares and underlying shares of the Company as recorded in the register required to be maintained under section 336 of the SFO were as follows:

Name of Substantial Shareholder	Number of Ordinary Shares		Percentage of Issued Share Capital
COFCO Limited	348,000,000 (L)		20.03%
COFCO Dairy Holdings Limited	347,600,000 (L)		20.01%
Fang Fenglei	347,600,000 (L)		20.01%
Hopu Investment Management Co., Ltd	347,600,000 (L)		20.01%
Ong Tiong Sin	347,600,000 (L)		20.01%
Xin Niu	100,412,466 (L)	*(Note 1)*	5.78%
	263,533,393 (L)	*(Note 2)*	15.17%
Yinniu	100,412,466 (L)	*(Note 1)*	5.78%
	263,533,393 (L)	*(Note 2)*	15.17%
Jinniu	36,571,292 (L)		2.11%
	263,533,393 (L)	*(Note 2)*	15.17%
Sun Yubin	263,533,393 (L)	*(Note 2)*	15.17%
Deng Jiuqiang	263,533,393 (L)	*(Note 2)*	15.17%
Lu Jun	263,533,393 (L)	*(Note 2)*	15.17%
Sun Xianhong	263,533,393 (L)	*(Note 2)*	15.17%
Wang Fuzhu	263,533,393 (L)	*(Note 2)*	15.17%
Bai Jun	263,533,393 (L)	*(Note 2)*	15.17%
Hou Jiangbin	263,533,393 (L)	*(Note 2)*	15.17%
Qiu Lianjun	263,533,393 (L)	*(Note 2)*	15.17%
Pang Kaitai	263,533,393 (L)	*(Note 2)*	15.17%
Chu Xiuli	263,533,393 (L)	*(Note 2)*	15.17%
Li Shurong	263,533,393 (L)	*(Note 2)*	15.17%
Liu Xiaoling	263,533,393 (L)	*(Note 2)*	15.17%
Wang Guisheng	263,533,393 (L)	*(Note 2)*	15.17%
Wang Ai Suo	263,533,393 (L)	*(Note 2)*	15.17%
Wang Jishan	263,533,393 (L)	*(Note 2)*	15.17%
Wang Jianbang	263,533,393 (L)	*(Note 2)*	15.17%
Jiang Hong	263,533,393 (L)	*(Note 2)*	15.17%
Zheng Wenping	263,533,393 (L)	*(Note 2)*	15.17%
Ren Meicheng	263,533,393 (L)	*(Note 2)*	15.17%
UBS AG	121,451,983 (L)		6.99%
	896,000 (S)		0.05%
J P Morgan Chase & Co	121,447,282 (L)		6.99%
	450,000 (S)		0.03%
	119,781,610 (P)		6.90%

Notes:

(1) 100,412,466 shares are held by Yinniu, a shareholder of the Company, which is controlled as to 96.26% by Xin Niu. Niu Gensheng, by virtue of a proxy, has been delegated voting rights of the shares in Yinniu held by Xin Niu.

(2) On 24 July 2008, Xin Niu, Yinniu, Jinniu, Niu Gensheng and the Management Shareholders entered into the Concert Party Agreement regarding their interest in the Company. The Concert Party Agreement constitutes an agreement under section 317 of the SFO and the aggregate number of shares under the Concert Party Agreement is 263,533,393, representing approximately 15.17% of the issued shares of the Company as at 31 December 2009. These shares are beneficially owned by Yinniu, Jinniu, Niu Gensheng, Yang Wenjun, Bai Ying (the shareholdings of these parties are set out in the table above or in the section headed “Directors' Interests, long and short position in shares, underlying shares and debentures”) and Sun Yubin (as to 2,498,444 shares), Deng Jiuqiang (as to 2,753,636 shares), Lu Jun (as to 1,134,104 shares), Sun Xianhong (as to 1,118,060 shares), Wang Fuzhu (as to 704,721 shares), Bai Jun (as to 570,542 shares), Hou Jiangbin (as to 9,447,321 shares), Qiu Lianjun (as to 9,001,526 shares), Pang Kaitai (as to 2,232,558 shares), Chu Xiuli (as to 2,181,818 shares), Li Shurong (as to 2,029,598 shares), Liu Xiaoling (as to 2,029,598 shares), Wang Guisheng (as to 1,587,596 shares), Wang Ai Suo (as to 2,282,170 shares), Wang Jishan (as to 2,946,976 shares), Wang Jianbang (as to 676,533 shares), Jiang Hong (as to 507,399 shares), Zheng Wenping (as to 9,894,289 shares) and Ren Meicheng (as to 2,516,691 shares).

(S) Indicates a short position.

(L) Indicates a long position.

(P) Indicates a lending position.

Saved as disclosed above and in the section “Share Option Scheme” below, as at 31 December 2009, no other interests or short position in the shares or underlying shares of the Company were recorded in the register maintained under section 336 of the SFO.

CONNECTED TRANSACTIONS

During the year ended 31 December 2009, the Company has not entered into any transactions which need to be disclosed as connected transactions in accordance with the Listing Rules.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The following share options were outstanding under the Scheme during the year.

Name or Category of Participant	Number of share options: As at 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	As at 31 December 2009	Date of grant of share options	Exercise Period of share options (both dates inclusive)[2]	Exercise price of share options HK$
Executive directors									
Yang Wenjun[1]	4,561,000	–	–	(2,280,500)	(2,280,500)	–	9.11.2007	9.11.2009 to 8.11.2013	32.24
	9,000,000	–	–	–	–	9,000,000	18.8.2008	18.8.2010 to 17.8.2014	22.03
	–	6,600,000	–	–	–	6,600,000	23.11.2009	23.11.2011 to 22.11.2015	24.40[3]
Sun Yubin[1][4]	1,875,000	–	–	(937,500)	(937,500)	–	9.11.2007	9.11.2009 to 8.11.2013	32.24
	1,680,000	–	–	–	–	1,680,000	18.8.2008	18.8.2010 to 17.8.2014	22.03
	–	1,650,000	–	–	–	1,650,000	23.11.2009	23.11.2011 to 22.11.2015	24.40[3]
Yao Tongshan	1,659,000	–	–	(829,500)	(829,500)	–	9.11.2007	9.11.2009 to 8.11.2013	32.24
	1,000,000	–	–	–	–	1,000,000	18.8.2008	18.8.2010 to 17.8.2014	22.03
	–	1,000,000	–	–	–	1,000,000	23.11.2009	23.11.2011 to 22.11.2015	24.40[3]
Bai Ying[1]	137,000	–	(68,500)	(34,250)	–	34,250	26.10.2006	26.10.2007 to 25.10.2012	13.40
	2,277,000	–	–	(1,138,500)	(1,138,500)	–	9.11.2007	9.11.2009 to 8.11.2013	32.24
	3,680,000	–	–	–	–	3,680,000	18.8.2008	18.8.2010 to 17.8.2014	22.03
	–	3,210,000	–	–	–	3,210,000	23.11.2009	23.11.2011 to 22.11.2015	24.40[3]

Name or Category of Participant	As at 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	As at 31 December 2009	Date of grant of share options	Exercise Period of share options (both dates inclusive)[2]	Exercise price of share options HK$
	Number of share options								
Employees in Aggregate[1]	5,315,401	–	(1,683,113)	(1,645,869)	–	1,986,419	26.10.2006	26.10.2007 to 25.10.2012	13.40
	32,760,000	–	–	(17,829,500)	(14,930,500)	–	9.11.2007	9.11.2009 to 8.11.2013	32.24
	63,758,000	–	–	(4,129,000)	–	59,629,000	18.8.2008	18.8.2010 to 17.8.2014	22.03
	–	76,565,000	–	–	–	76,565,000	23.11.2009	23.11.2011 to 22.11.2015	24.40[3]
	127,702,401	89,025,000	(1,751,613)	(28,824,619)	(20,116,500)	166,034,669			

(1) Xin Niu, Yinniu, Jinniu and the Management Shareholders entered into the Concert Party Agreement on 24 July 2008 and accordingly, Xin Niu, Yinniu, Jinniu and the Management Shareholders (who include Yang Wenjun, Sun Yubin and Bai Ying) were all deemed to be interested in an aggregate of 31,564,500 share options in the Company under the SFO as at 31 December 2009.

(2) The exercise period of the share options granted commences after a certain vesting period and the fulfilment of certain performance targets, and ends on a date which is no later than six years from the date of grant of such options. Further details of the share option scheme are set out in note 40 to the financial statements.

(3) The closing price of the Company's shares immediately before the date of granted (i.e. 23 November 2009) was HK$23.75.

(4) Mr. Sun Yubin was resigned as executive Director with effect from 27 August 2009.

The values of share options calculated using the binomial model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty related to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. Details of the valuation are set out in note 40 to the financial statements.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

Report of the Directors

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of purchases attributable to the five largest suppliers of the Group combined was less than 30% of the total purchases of the Group.

The percentage of revenue attributable to the five largest customers of the Group combined was less than 30% of the total revenue of the Group.

PLEDGE OF ASSETS

As at 31 December 2009, the Group pledged certain bank deposits, bills receivable and certain property, plant and equipment aggregating to approximately RMB459,410,000 (2008: RMB559,782,000). Details are set out in respective notes to the financial statements.

COMMITMENTS AND CONTINGENT LIABILITIES

Details of commitments and contingent liabilities are set out in notes 42 and 43 to the financial statements.

Report of the Directors

FINANCIAL SUMMARY

A summary of the results for the year and of the assets and liabilities of the Group as at 31 December 2009 and for the previous four financial periods are set out on page 148.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 30 to 37.

AUDITORS

The financial statements have been audited by Ernst & Young. A resolution for the re-appointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board of Directors

Yang Wenjun
Chief Executive Officer

Hong Kong, 27 April 2010

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. NIU Gensheng	
Mr. YANG Wenjun	
Mr. SUN Yubin	(resigned on 27 August 2009)
Mr. YAO Tongshan	(resigned on 1 March 2010)
Mr. BAI Ying	
Mr. WU Jingshui	(appointed on 1 March 2010)
Mr. Ding Sheng	(appointed on 1 March 2010)

Non-Executive Directors

Mr. NING Gaoning	(appointed on 27 August 2009)
Mr. JIAO Shuge (alias JIAO Zhen)	
Mr. Julian Juul WOLHARDT	
Mr. YU Xubo	(appointed on 27 August 2009)
Mr. MA Jianping	(appointed on 27 August 2009)
Mr. FANG Fenglei	(appointed on 27 August 2009)
Mr. MA Wangjun	(appointed on 1 March 2010)

Independent Non-Executive Directors

Mr. WANG Huaibao	(resigned on 1 May 2009)
Mr. ZHANG Julin	
Mr. LIU Fuchun	(appointed on 1 May 2009)
Mr. ZHANG Xiaoya	(appointed on 1 May 2009)
Mr. LI Jianxin	(passed away on 20 February 2009)

SENIOR MANAGEMENT

Mr. LU Jianjun
Mr. YAO Haitao
Ms. ZHAO Yuanhua
Mr. LIU Weixing
Mr. KWOK Wai Cheong, Chris
(Qualified Accountant & Company Secretary)

STOCK CODE

Hong Kong Stock Exchange 2319

INVESTOR RELATIONS CONTACT

Mr. KWOK Wai Cheong, Chris
Unit 1001, 10th Floor, Jubilee Centre
18 Fenwick Street, Wanchai
Hong Kong
Email: info@mengniuir.com
Website: www.mengniuir.com

PLACE OF BUSINESS IN HONG KONG

Unit 1001, 10th Floor, Jubilee Centre
18 Fenwick Street, Wanchai
Hong Kong

REGISTERED OFFICE

Maples Corporate Services
P.O. Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman, KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

LEGAL ADVISORS

As to Hong Kong Law
Norton Rose

As to Cayman Islands Law
Maples and Calder Asia

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
Industrial Commercial Bank of China
BNP Paribas

AUDITORS

Ernst & Young

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of China Mengniu Dairy Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of the China Mengniu Dairy Company Limited (the "Company") set out on pages 51 to 147, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

27 April 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CONTINUING OPERATIONS			
REVENUE	4	**25,710,460**	23,864,975
Cost of sales		**(18,858,229)**	(19,195,576)
GROSS PROFIT		**6,852,231**	4,669,399
Other income and gains	4	**80,959**	122,654
Selling and distribution costs		**(4,653,460)**	(4,428,027)
Administrative expenses		**(863,750)**	(622,162)
Other operating expenses	5	**(113,045)**	(876,033)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		**1,302,935**	(1,134,169)
Interest income		**85,042**	54,841
Finance costs	8	**(61,153)**	(39,394)
Share of profits and losses of associates		**19,522**	29,447
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	6	**1,346,346**	(1,089,275)
Income tax income/(expense)	9	**(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	10	**–**	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)	12		
Basic			
– 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 11 to the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	2009	2008
	RMB'000	*RMB'000*
Profit/(loss) for the year	**1,220,106**	(924,464)
Currency translation differences	**(4,535)**	(81,614)
Total comprehensive income for the year, net of tax	**1,215,571**	(1,006,078)
Attributable to:		
Owners of the Company	**1,111,264**	(1,030,214)
Non-controlling interests	**104,307**	24,136
	1,215,571	(1,006,078)

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**4,919,608**	5,247,072
Construction in progress	14	**326,679**	215,017
Land use rights	15	**367,191**	256,524
Goodwill	16	**199,143**	199,143
Other intangible assets	17	**31,637**	32,667
Interests in associates	19	**67,383**	40,107
Available-for-sale investments	21	**17,409**	18,029
Deferred tax assets	22	**131,741**	186,881
Other financial assets	23	**20,868**	18,333
		6,081,659	6,213,773
CURRENT ASSETS			
Inventories	24	**714,897**	824,453
Bills receivable	25	**52,449**	64,778
Trade receivables	26	**527,303**	284,079
Prepayments and deposits	27	**272,627**	374,904
Other receivables	28	**66,202**	90,679
Pledged deposits	29	**230,968**	41,693
Cash and bank balances	29	**6,150,021**	3,041,965
		8,014,467	4,722,551
Assets of a disposal group classified as held for sale	10	**–**	378,951
		8,014,467	5,101,502
CURRENT LIABILITIES			
Trade payables	30	**1,531,366**	2,155,265
Bills payable	31	**808,409**	239,345
Deferred income	36	**13,162**	12,918
Accruals and customers' deposits	32	**559,291**	745,535
Other payables		**1,211,172**	1,048,792
Interest-bearing bank loans	33	**323,593**	1,208,660
Other loans	34	**106,947**	72,942
		4,553,940	5,483,457
Liabilities directly associated with assets classified as held for sale	10	**–**	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

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	33	**350,000**	520,000
Long term payables	35	**49,879**	107,988
Deferred income	36	**230,613**	183,210
		630,492	811,198
NET ASSETS		**8,911,694**	4,737,971
EQUITY			
Equity attributable to owners of the Company			
Issued capital	37	**178,611**	163,137
Retained earnings		**1,294,766**	363,555
Other reserves	38(A)	**7,102,301**	3,937,924
		8,575,678	4,464,616
Non-controlling interests		**336,016**	273,355
TOTAL EQUITY		**8,911,694**	4,737,971

Niu Gensheng
Director

Yang Wenjun
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

		Attributable to owners of the Company					
		Issued capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	Notes	*RMB'000*	*RMB'000* *Note 38(A)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008		151,277	3,412,619	1,547,733	5,111,629	723,075	5,834,704
Total comprehensive income for the year		–	(81,614)	(948,600)	(1,030,214)	24,136	(1,006,078)
Issue of shares for acquisition of additional interest in a subsidiary	*37*	11,843	422,141	–	433,984	(433,984)	–
Shares issued under equity-settled share option arrangements	*40*	17	2,245	–	2,262	–	2,262
Equity-settled share option arrangements	*40*	–	134,622	–	134,622	–	134,622
Transfer to statutory reserves		–	47,911	(47,911)	–	–	–
Dividends paid to non-controlling interests		–	–	–	–	(44,672)	(44,672)
Dividends paid to owners of the Company	*11*	–	–	(187,667)	(187,667)	–	(187,667)
Capital injection from non-controlling interests		–	–	–	–	4,800	4,800
At 1 January 2009		**163,137**	**3,937,924**	**363,555**	**4,464,616**	**273,355**	**4,737,971**
Total comprehensive income for the year		**–**	**(4,535)**	**1,115,799**	**1,111,264**	**104,307**	**1,215,571**
Issue of shares	*37*	**15,320**	**2,679,163**	**–**	**2,694,483**	**–**	**2,694,483**
Shares issued under equity-settled share option arrangements	*40*	**154**	**20,515**	**–**	**20,669**	**–**	**20,669**
Equity-settled share option arrangements	*40*	**–**	**284,646**	**–**	**284,646**	**–**	**284,646**
Transfer to statutory reserves		**–**	**184,588**	**(184,588)**	**–**	**–**	**–**
Dividends paid to non-controlling interests		**–**	**–**	**–**	**–**	**(33,563)**	**(33,563)**
Deemed disposal of a subsidiary	*41*	**–**	**–**	**–**	**–**	**(8,083)**	**(8,083)**
At 31 December 2009		**178,611**	**7,102,301**	**1,294,766**	**8,575,678**	**336,016**	**8,911,694**

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Cash flows from operating activities			
Profit/(loss) before tax			
From continuing operations		**1,346,346**	(1,089,275)
From discontinued operation		**–**	3,357
Adjustments for:			
Interest income		**(85,042)**	(54,841)
Finance costs	8	**61,153**	39,394
Depreciation of property, plant and equipment	6	**663,863**	630,046
Amortisation of land use rights	6	**7,231**	5,604
Amortisation of other intangible assets	6	**4,304**	4,050
Loss on disposal of items of property, plant and equipment	5	**7,834**	6,227
Share-based payment expense	40	**284,646**	134,622
Provision/(write-back of provision) for trade receivables and other receivables	6	**15,980**	(1,711)
Share of profits and losses of associates		**(19,522)**	(29,447)
Profit for the year from a discontinued operation		**–**	(3,357)
Write-down of inventories to net realisable value	5	**1,033**	179,873
Amortisation of deferred income	4	**(13,795)**	(12,545)
Foreign exchange differences, net	4	**(541)**	(65,825)
Loss on disposal of a subsidiary acquired with a view to resale	10	**407**	–
Loss on deemed disposal of a subsidiary	41	**1,073**	–
		2,274,970	(253,828)
Increase in other financial assets		**(22,750)**	(13,135)
Decrease/(increase) in inventories		**103,062**	(125,278)
Decrease/(increase) in trade and bills receivables		**(241,101)**	29,467
Decrease/(increase) in pledged deposits		**(103,195)**	2,813
Decrease/(increase) in prepayments, deposits and other receivables		**51,441**	(102,616)
Increase/(Decrease) in trade and bills payables		**(54,627)**	817,024
Increase in accruals and other payables		**210,969**	318,297
Cash generated from operations		**2,218,769**	672,744
Interest paid		**(50,610)**	(22,925)
Income taxes paid		**(36,588)**	(62,939)
Net cash flows from operating activities		**2,131,571**	586,880

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Cash flows from investing activities			
Proceeds from disposal of items of property, plant and equipment		**9,722**	10,234
Purchases of items of property, plant and equipment		**(244,431)**	(290,484)
Purchases of construction in progress	14	**(368,265)**	(497,862)
Purchase of other intangible assets	17	**(11,047)**	(5,313)
Purchase of land use rights		**(72,195)**	(34,582)
Disposal of available-for-sale investments		**620**	538
Acquisition of a subsidiary with a view to resale	10	**–**	(89,661)
Capital injection to associates		**(4,077)**	(1,350)
Capital injection to a jointly-controlled entity		**(40,000)**	(80,000)
Receipt of government grants		**51,422**	17,928
Dividends received from a discontinued operation		**–**	22,750
Purchase of time deposits with original maturity of more than three months		**(1,340,397)**	(369,000)
Interest received		**67,735**	54,841
Dividends received from associates		**25,364**	12,152
Disposal of a subsidiary acquired with a view to resale		**96,199**	–
Deemed disposal of a subsidiary	41	**(6,288)**	–
Net cash flows used in investing activities		**(1,835,638)**	(1,249,809)
Cash flows from financing activities			
Proceeds from interest-bearing bank loans		**665,582**	1,674,498
Repayment of interest-bearing bank loans		**(1,720,636)**	(206,021)
Increase in pledged deposits for bank loans		**(86,080)**	–
Dividends paid to owners of the Company	11	**–**	(187,667)
Dividends paid to non-controlling interests		**(32,640)**	(39,872)
Proceeds from other loans		**48,565**	72,942
Repayment of other loans		**–**	(36,004)
Repayment of long term payables		**(154,209)**	(202,962)
Capital contribution by the joint venture partner		**40,000**	80,000
Shares issued under equity-settled share option arrangements	40	**20,669**	2,262
Proceeds from issuance of new shares	37	**2,696,341**	–
Share issue costs	37	**(1,858)**	(2,130)
Net cash flows from financing activities		**1,475,734**	1,155,046
Net increase in cash and cash equivalents		**1,771,667**	492,117
Cash and cash equivalents at beginning of year	29	**2,218,965**	1,756,818
Effect of foreign exchange rate changes, net		**(4,008)**	(29,970)
Cash and cash equivalents at end of year	29	**3,986,624**	2,218,965
Analysis of balances of cash and cash equivalents			
Cash and bank balances as stated in the statement of financial position	29	**6,150,021**	3,041,965
Time deposits with original maturity of more than three months	29	**(2,163,397)**	(823,000)
Cash and cash equivalents as stated in the statement of cash flows	29	**3,986,624**	2,218,965

Statement of Financial Position

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**28**	48
Interests in subsidiaries	*18*	**4,819,857**	4,524,581
		4,819,885	4,524,629
CURRENT ASSETS			
Dividends receivable		**106,355**	75,915
Prepayments, deposits and other receivables	*28*	**1,437,024**	955,284
Cash and cash equivalents	*29*	**2,354,922**	54,058
Interest in a subsidiary with a view to resale	*10, 18*	**–**	67,004
		3,898,301	1,152,261
CURRENT LIABILITIES			
Accruals and other payables		**2,516**	2,914
		2,516	2,914
NET CURRENT ASSETS		**3,895,785**	1,149,347
NET ASSETS		**8,715,670**	5,673,976
EQUITY			
Issued capital	*37*	**178,611**	163,137
Reserves	*38(B)*	**8,537,059**	5,510,839
TOTAL EQUITY		**8,715,670**	5,673,976

Niu Gensheng
Director

Yang Wenjun
Director

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

2.2 IMPACT OF NEW AND REVISED IFRSs *(continued)*

(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.

2.2 IMPACT OF NEW AND REVISED IFRSs *(continued)*

(c) *(continued)*

- 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.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*[2]
IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*[4]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2]
IFRS 9	*Financial Instruments*[6]
IAS 24 (Revised)	*Related Party Disclosures*[5]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[5]
IFRIC 17	*Distributions of Non-cash Assets to Owners*[1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to IFRS 5 included in *Improvements to IFRSs issued in May 2008*	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*[1]

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs *(continued)*

Apart from the above, the IASB has issued *Improvements to IFRSs 2009* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. The Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held-for-sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. The Group's interests in associates are accounted for under the equity method of accounting. Under the equity method, the investments in associates are carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investments in the associates. The consolidated income statement reflects the Group's share of the results of the operations of the associates. When there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for the transactions and events in similar circumstances.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint venture

The Group has an interest in a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

The Group recognises its interest in the jointly controlled entity using the proportionate consolidation method. The Group combines its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its consolidated financial statements. Unrealised gains and losses resulting from transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interests in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred. The financial statements of the jointly controlled entity are prepared for the same reporting year as the Group, using consistent accounting policies.

When the Group contributes or sells assets to the jointly controlled entity, any portion of gain or loss from the transaction is recognised based on the substance of the transaction. When the Group purchases assets from the jointly controlled entity, the Group does not recognise its share of the profits of the jointly controlled entity from the transaction until it resells the assets to an independent party.

The jointly controlled entity is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities as at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Gain from the bargain purchase

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, after reassessment, is recognised immediately in the income statement.

The excess for associates and the jointly controlled entity is included in the Group's share of the associates' and the jointly controlled entity's profits or losses in the period in which the investments are acquired.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Such cost also includes the cost of replacing part of the plant and equipment when that cost is incurred and borrowing cost for long term construction projects, if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when each major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life.

The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	20 years
Plant and machinery	5 to 10 years
Office equipment	5 years
Motor vehicles	5 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year the item is derecognised.

The assets' residual values, useful lives and the depreciation method are reviewed, and adjusted prospectively if appropriate, at least at each financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Construction in progress

Construction in progress represents plants and properties under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Trademark

Acquired trademark is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years.

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets (other than goodwill) *(continued)*

Research and development costs (continued)

During the period of development, the asset is tested for impairment annually. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when the development is complete and the asset is available for use. It is amortised over the period of expected future sales. During the period of which the asset is not yet in use, it is tested for impairment annually.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the straight-line basis over their estimated useful lives of 3 to 10 years.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Impairment of non-financial assets other than goodwill

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. An impairment loss is charged to the consolidated income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets other than goodwill *(continued)*

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement in the period in which it arises, unless the assets is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials	–	cost on a weighted average basis;
Finished goods	–	cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less any estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

For the purpose of the statement of financial position, cash and cash equivalents comprise cash at banks and on hand and term deposits with an original maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts, if any.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classifications of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Initial recognition and measurement (continued)

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade receivables, bills receivables and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the consolidated income statement. The loss arising from impairment is recognised in the consolidated income statement in other operating expenses.

Available-for-sale investments

The Group only holds available-for-sale investments which are non-trading investments in unlisted equity securities intended to be held on a long term basis. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. After initial recognition, available for sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain and loss is recognised in the income statement in other income, or until the investment is determined to be impaired at which time the cumulative gain or loss is recognised in the consolidated income statement in other operating expenses and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the consolidated income statement as "Other income and gains" in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale investments (continued)

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to the impaired, then the amount recorded in equity is reclassified to the income statement.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of the event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a further write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is removed from other comprehensive income and recognised in the consolidated income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Available-for-sale financial investments (continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables, financial guarantee contracts and interest-bearing loans and borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active financial markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into considerations and practices prevailing in the countries in which the Group operates.

Deferred income tax

Deferred income tax is provided, using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in a joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in a joint venture, deferred income tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred income tax (continued)

The carrying amount of deferred income tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of the reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue is measured at fair value of the consideration received, excluding discounts, rebates, and sales taxes and duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal on agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Interest income

Revenue is recognised as interest accrues using the effective interest method by applying the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised in the consolidated income statement over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments.

Where the Group receives government loans granted with a below-market rate of interest, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to prepare for their intended use, are capitalised as a part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the consolidated income statement in the period in which they are incurred.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. When the Group is a lessee, operating lease payments are recognised as an expense in the consolidated income statement on the straight-line basis over the lease term.

Land use rights

Land lease payments under operating lease are initially stated at cost and subsequently recognised as an expense in the consolidated income statement on the straight-line basis over the lease terms of 50 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currency translation

Each entity in the Group determines its functional currency based on the assessment of its specific facts and circumstances. The Company, established in the Cayman Islands, uses the Hong Kong dollar as its functional currency and the subsidiaries, established in the PRC, use the RMB as their functional currency. As the Group mainly operates in Mainland China, RMB is used as the presentation currency of the Group. Transactions in foreign currencies are initially recorded at the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of companies whose functional currency differs from the presentation currency are translated into the presentation currency of the Group at the rates of exchange ruling at the end of the reporting period and their income statements are translated at the weighted average exchange rates for the reporting period. The exchange differences arising on the retranslation are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Employee benefits

Retirement benefits

The Group's subsidiaries operating in Mainland China except for Hong Kong participate in a central defined contribution retirement plan managed by the local municipal government in the locations in which they operate. Contributions are made based on a percentage of the companies' payroll costs and are charged to the consolidated income statement as they become payable in accordance with the rules of the central pension scheme.

The Company also participates in the defined contribution Mandatory Provident Fund retirement scheme (the "MPF Scheme") in Hong Kong. Contributions are made to a separately administered fund based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 40 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for the period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellation of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are given in note 12).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Details of goodwill are given in note 16 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Impairment of trade and other receivables

The Group determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition. Management reassesses the provisions at the end of each reporting period.

Useful lives, residual values and depreciation of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charges where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic review could result in a change in depreciable lives and residual values and therefore depreciation expenses in the future periods.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in note 40 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, which affects the probability of utilisation and the tax rate to be used in the calculations. Details of deferred tax assets are contained in note 22 to the financial statements.

3. 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". Further details of the discontinued operation are disclosed in note 10 to the financial statements.

3. OPERATING SEGMENT INFORMATION *(continued)*

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
	22,797,570	2,701,171	293,875	25,792,616
Reconciliation:				
Elimination of intersegment sales				(82,156)
Revenue from continuing operations				25,710,460
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				(363,309)
Profit before tax from continuing operations				1,346,346
Income tax expense				(126,240)
Profit for the year from continuing operations				1,220,106
Segment assets	8,398,855	1,172,153	336,725	9,907,733
Reconciliation:				
Elimination of intersegment receivables				(2,870,958)
Unallocated corporate assets				7,059,351
Total assets				14,096,126
Segment liabilities	5,139,046	766,052	216,681	6,121,779
Reconciliation:				
Elimination of intersegment payables				(2,870,958)
Unallocated corporate liabilities				1,933,611
Total liabilities				5,184,432

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2009

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

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2008

	Liquid milk products *RMB'000*	Ice cream products *RMB'000*	Other dairy products *RMB'000*	Total *RMB'000*
Segment revenue:				
Sales to external customers	21,068,097	2,626,515	170,363	23,864,975
Intersegment sales	214,891	52,308	11,460	278,659
	21,282,988	2,678,823	181,823	24,143,634
Reconciliation:				
Elimination of intersegment sales				(278,659)
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				(221,730)
Loss before tax from continuing operations				(1,089,275)
Income tax income				161,454
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				3,609,218
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				2,503,665
Total liabilities				6,294,655

3. OPERATING SEGMENT INFORMATION *(continued)*

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				639,700
Capital expenditure	717,945	26,474	31,663	776,082
Unallocated amounts				25,110
Total capital expenditure				801,192
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				312,784

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. REVENUE, OTHER INCOME AND GAINS

Revenue, being the turnover of the Group, represents the net invoiced value of goods sold, after allowances for goods returns and trade discounts, and after eliminations of all significant intra-group transactions.

An analysis of the Group's revenue, other income and gains from continuing operations is as follows:

	Notes	2009 RMB'000	2008 RMB'000
Revenue:			
Sales of goods		**25,710,460**	23,864,975
Other income and gains:			
Government grants	*(a)*	**48,474**	34,982
Amortisation of deferred income	*(b)*	**13,795**	12,545
Foreign exchange gains, net		**541**	65,825
Others		**18,149**	9,302
		80,959	122,654
		25,791,419	23,987,629

Notes:

(a) The government grants have been received for the Group's contribution to the local economy with respect to the establishment of infrastructure relating to the dairy products industry. There are no unfulfilled conditions or contingences attaching to these grants.

(b) The Group has received certain government grants in the form of property, plant and equipment donations or cash donations to purchase property, plant and equipment. The grants are initially recorded as deferred income and amortised to match the depreciation charge of the underlying property, plant and equipment in accordance with the assets' estimated useful lives.

5. OTHER OPERATING EXPENSES

	Notes	2009 RMB'000	2008 RMB'000
Write-off of inventories	*(a)*	**45,305**	655,216
Write-down of inventories to net realisable value	*(a)*	**1,033**	179,873
Loss on disposal of items of property, plant and equipment		**7,834**	6,227
Donation		**12,901**	20,050
Provision/(write-back of provision) for trade receivable and other receivables		**15,980**	(1,711)
Cash contribution to the Medical Compensation Fund	*(b)*	**–**	4,985
Compensation to customers		**18,699**	–
Others		**11,293**	11,393
		113,045	876,033

Notes:

(a) In September 2008, certain dairy products manufactured by the Group were found to contain melamine under the laboratory testing by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China. As a consequence, the Group wrote off inventories at a cost of RMB655,216,000. As at 31 December 2008, the Group also made an impairment provision for the dairy products held in inventories as at 31 December 2008 at the amount of RMB179,873,000 (note 24).

(b) Mengniu Arla (Inner Mongolia) Dairy Products Co., Ltd., a 50% joint venture of the Group and the sole milk powder producer within the Group, contributed the amount of RMB9,970,000 to a medical compensation fund centrally managed by the government (hereafter "the Medical Compensation Fund") in December 2008.

6. 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 as disclosed in note 7)		
– Wages, salaries, housing benefits and other allowances	**1,021,717**	889,211
– Retirement benefit contributions	**71,695**	68,503
– Share-based payment expense *(note 40)*	**223,902**	105,441
	1,317,314	1,063,155
Depreciation of property, plant and equipment	**663,863**	630,046
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

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2009 RMB'000	2008 RMB'000
Fees	**320**	270
Other emoluments		
– Basic salaries, housing benefits, other allowances and benefits in kind	**6,280**	4,754
– Retirement benefit contributions	**91**	110
	6,691	5,134

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(continued)*

	Notes	Fees RMB'000	Basic salaries, housing benefits, other allowances and benefits in kind RMB'000	Retirement benefit contributions RMB'000	Total remuneration RMB'000
2009					
Executive directors					
– Mr. Niu Gensheng		30	1,055	19	1,104
– Mr. Yang Wenjun		30	2,284	19	2,333
– Mr. Sun Yubin	(a)	15	559	15	589
– Mr. Yao Tongshan	(a)	30	429	19	478
– Mr. Bai Ying		30	1,953	19	2,002
Non-executive directors					
– Mr. Ning Gaoning	(b)	–	–	–	–
– Mr. Jiao Shuge	(b)	–	–	–	–
– Mr. Julian Juul Wolhardt	(b)	–	–	–	–
– Mr. Yu Xubo	(b)	–	–	–	–
– Mr. Ma Jianping	(b)	–	–	–	–
– Mr. Fang Fenglei	(b)	–	–	–	–
Independent non-executive directors					
– Mr. Wang Huaibao	(a)	25	–	–	25
– Mr. Zhang Julin		68	–	–	68
– Mr. Zhang Xiaoya		42	–	–	42
– Mr. Liu Fuchun		42	–	–	42
– Mr. Li Jianxin	(c)	8	–	–	8
		320	6,280	91	6,691

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(continued)*

	Notes	Fees RMB'000	Basic salaries, housing benefits, other allowances and benefits in kind RMB'000	Retirement benefit contributions RMB'000	Total remuneration RMB'000
2008					
Executive directors					
– Mr. Niu Gensheng		30	866	22	918
– Mr. Yang Wenjun		30	1,470	22	1,522
– Mr. Sun Yubin		30	584	22	636
– Mr. Yao Tongshan		15	413	22	450
– Mr. Bai Ying		15	1,421	22	1,458
Non-executive directors					
– Mr. Jiao Shuge	*(b)*	–	–	–	–
– Mr. Julian Juul Wolhardt	*(b)*	–	–	–	–
Independent non-executive directors					
– Mr. Wang Huaibao		50	–	–	50
– Mr. Zhang Julin		50	–	–	50
– Mr. Li Jianxin	*(c)*	50	–	–	50
		270	4,754	110	5,134

Notes:

(a) Mr. Sun Yubin and Mr. Wang Huaibao resigned as directors on 27 August 2009 and 1 May 2009, respectively. Subsequent to the end of the reporting period, Mr. Yao Tongshan resigned as a director with effect from 1 March 2010.

(b) The six (2008: two) non-executive directors agreed to waive their entitlements to directors' fees totalling RMB183,000 (2008: RMB100,000) for the year. Other than the aforementioned, there was no arrangement under which a director waived or agreed to waive any remuneration during the year.

(c) Mr. Li Jianxin passed away on 20 February 2009. Details were disclosed in the Company's announcement dated 23 February 2009.

(d) During the year, certain directors were granted share options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 40 to the financial statements. In accordance with IFRS 2, share option benefits represent the fair value at grant date of the share options issued under the share option scheme of the Company amortised to the consolidated income statement during the year disregarding whether the options have been vested/exercised or not. During the year, the share option benefits relating to the share options granted to Mr. Yang Wenjun, Mr. Sun Yubin, Mr. Yao Tongshan and Mr. Bai Ying were approximately RMB34,709,000 (2008: RMB15,256,000), RMB5,421,000 (2008: RMB4,091,000), RMB5,660,000 (2008: RMB3,095,000), and RMB14,954,000 (2008: RMB6,739,000), respectively. The share option benefits relating to the share options granted to the four directors are not included in the above analysis.

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS *(continued)*

Three (2008: Three) of the five highest paid individuals were directors whose emoluments have been shown above. Details of emoluments paid to the remaining two (2008: two) non-director, highest paid individuals who are senior executives for the year were as follows:

	2009 RMB'000	2008 RMB'000
Basic salaries, housing benefits, other allowances and benefits in kind	**2,003**	1,440
Retirement scheme contributions	**114**	110
	2,117	1,550

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2009	2008
HK$500,001 to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**2**	–
	2	2

During the year, share options were granted to two (2008: two) non-director, highest paid employees in respect of their services to the Group, further details of which are set out in note 40 to the financial statements. During the year, the share option benefits relating to the share options granted to the two non-director, highest paid employees were approximately RMB15,471,000 (2008: RMB6,954,000) in aggregate. The share option benefits relating to the share options granted to the two non-directors, highest paid employees are not included in the above analysis.

8. FINANCE COSTS

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

	2009 RMB'000	2008 RMB'000
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.

9. 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 RMB'000	2008 RMB'000
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 *(note 22)*	**55,140**	(180,579)
	126,240	(161,454)

9. INCOME TAX (INCOME)/EXPENSE *(continued)*

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:

	Notes	2009 RMB'000	2008 RMB'000
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.

10. ACQUISITION OF A SUBSIDIARY WITH A VIEW TO RESALE

On 5 September 2008, with a view for resale within one year, the Company acquired the entire equity interest of AustDairy Limited (hereafter "AustDairy"), an investment company whose net assets primarily comprised a 70% equity interest in Inner Mongolia Mengniu AustAsia Model Dairy Farm Company Limited (hereafter "AustAsia"). Prior to the acquisition, AustAsia was a 30% associate indirectly held by Inner Mongolia Mengniu Dairy (Group) Company Limited (hereafter "Mengniu"), a subsidiary of the Company. The subsidiary was acquired for the purpose of business reorganisation of the Group.

The fair values of the identifiable assets and liabilities of AustDairy as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition *RMB'000*	Previous carrying amounts *RMB'000*
Total assets	385,309	397,060
Total liabilities	(253,580)	(253,580)
Net assets	131,729	143,480
Previously held equity interests in AustAsia measured at fair value	(39,519)	
Total net assets acquired	92,210	
Gain from the bargain purchase	(2,549)	
Consideration, satisfied by cash	89,661	

The acquisition related costs of approximately RMB300,000 and the gain of RMB4,328,000 as a result of remeasuring the fair value of previously held equity interests in AustAsia were recognised in the "profit for the year from a discontinued operation" on the face of the consolidated income statement for 2008.

The operating results of AustAsia attributable to the Group before 5 September 2008 were included in "Share of profits and losses of associates" on the face of the consolidated income statement amounting to RMB18,664,000.

10. ACQUISITION OF A SUBSIDIARY WITH A VIEW TO RESALE *(continued)*

By the end of 2008, AustDairy and Mengniu entered into equity transfer agreements with a third party to sell 70% and 30% equity interests in AustAsia, respectively. Upon the acquisition of AustDairy by the Company and as at 31 December 2008, the net assets of AustAsia have been classified as a disposal group held for sale and as a discontinued operation in the consolidated financial statements.

The disposal of AustAsia was completed during 2009. The loss associated with the discontinued operation amounted to RMB407,000 for 2009.

Subsequent to the disposal of AustAsia, AustDairy was dissolved in 2009.

11. DIVIDENDS

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

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.

12. 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 ***RMB'000***	2008 *RMB'000*
Profit/(loss) attributable to ordinary owners of the Company:		
From continuing operations	**1,115,799**	(951,957)
From a discontinued operation	**–**	3,357
	1,115,799	(948,600)

Shares

	2009 **Number of Shares** ***'000***	2008 Number of shares *'000*
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	**1,637,304**	1,485,438

13. PROPERTY, PLANT AND EQUIPMENT

Movements of the Group's property, plant and equipment during the year are as follows:

	Buildings and structures *RMB'000*	Plant and machinery *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 1 January 2009, net of accumulated depreciation	1,460,867	3,621,530	123,149	41,526	5,247,072
Additions	40,608	55,234	39,978	5,076	140,896
Transfers from construction in progress *(note 14)*	59,116	192,735	4,449	303	256,603
Disposals	(1,413)	(33,221)	(411)	(15,382)	(50,427)
Deemed disposal of a subsidiary *(note 41)*	–	(9,553)	(451)	(669)	(10,673)
Depreciation provided during the year	(89,354)	(522,047)	(39,122)	(13,340)	(663,863)
At 31 December 2009, net of accumulated depreciation	1,469,824	3,304,678	127,592	17,514	4,919,608
At 1 January 2009					
Cost	1,736,423	5,257,081	221,927	96,703	7,312,134
Accumulated depreciation	(275,556)	(1,635,551)	(98,778)	(55,177)	(2,065,062)
Net carrying amount	1,460,867	3,621,530	123,149	41,526	5,247,072
At 31 December 2009					
Cost	1,833,736	5,441,320	261,796	47,167	7,584,019
Accumulated depreciation	(363,912)	(2,136,642)	(134,204)	(29,653)	(2,664,411)
Net carrying amount	1,469,824	3,304,678	127,592	17,514	4,919,608

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings and structures *RMB'000*	Plant and machinery *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 1 January 2008, net of accumulated depreciation	1,368,004	3,534,342	98,898	41,404	5,042,648
Additions	74,475	143,878	32,773	12,309	263,435
Transfers from construction in progress *(note 14)*	100,262	476,225	19,797	–	596,284
Disposals	–	(24,507)	(343)	(399)	(25,249)
Depreciation provided during the year	(81,874)	(508,408)	(27,976)	(11,788)	(630,046)
At 31 December 2008, net of accumulated depreciation	1,460,867	3,621,530	123,149	41,526	5,247,072
At 1 January 2008					
Cost	1,561,686	4,673,230	170,416	83,352	6,488,684
Accumulated depreciation	(193,682)	(1,138,888)	(71,518)	(41,948)	(1,446,036)
Net carrying amount	1,368,004	3,534,342	98,898	41,404	5,042,648
At 31 December 2008					
Cost	1,736,423	5,257,081	221,927	96,703	7,312,134
Accumulated depreciation	(275,556)	(1,635,551)	(98,778)	(55,177)	(2,065,062)
Net carrying amount	1,460,867	3,621,530	123,149	41,526	5,247,072

(a) All of the Group's buildings are located in Mainland China.

(b) Certain property, plant and equipment of the Group with a net book value of approximately RMB187,406,000 (2008: RMB468,089,000) have been pledged to secure the long term payables of the Group, details of which are set out in note 35 to the financial statements.

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Movements of the Company's property, plant and equipment during the year, which comprise only office equipment, are as follows:

	Company	
	2009	2008
	RMB'000	*RMB'000*
At 1 January, net of accumulated depreciation	**48**	65
Additions	**–**	22
Depreciation provided during the year	**(20)**	(39)
At 31 December, net of accumulated depreciation	**28**	48
At 1 January		
Cost	**167**	145
Accumulated depreciation	**(119)**	(80)
Net carrying amount	**48**	65
At 31 December		
Cost	**167**	167
Accumulated depreciation	**(139)**	(119)
Net carrying amount	**28**	48

14. CONSTRUCTION IN PROGRESS

Movements of the Group's construction in progress, all of which are located in Mainland China, are as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Carrying amount at beginning of year	**215,017**	313,439
Additions during the year	**368,265**	497,862
Transfers to property, plant and equipment *(note 13)*	**(256,603)**	(596,284)
Carrying amount at end of year	**326,679**	215,017

15. LAND USE RIGHTS

	Group	
	2009	2008
	RMB'000	*RMB'000*
Carrying amount at beginning of year	**262,481**	233,503
Additions during the year	**119,997**	34,582
Amortised during the year	**(7,231)**	(5,604)
Carrying amount at end of year	**375,247**	262,481
Current portion included in prepayments and deposits under current assets *(note 27)*	**8,056**	5,957
Non-current portion	**367,191**	256,524
	375,247	262,481

The leasehold land is held under a long term lease of 50 years and is situated in Mainland China.

16. GOODWILL

	Group	
	2009	2008
	RMB'000	*RMB'000*
Carrying amount at 1 January and 31 December	**199,143**	199,143

Goodwill acquired through business combinations has been allocated to the following cash-generating units (the "CGUs"), which are reportable segments, for impairment testing:

– liquid milk products CGU;

– ice cream products CGU; and

– other dairy products CGU.

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets or forecasts approved by senior management covering a five-year period. The growth rates used to extrapolate the cash flows beyond the five-year period are based on the estimated growth rate of each unit taking into account of the industry growth rate, past experience and the medium or long term growth target of each CGU. The growth rates for these CGUs are higher than the respective average industry growth rates. Senior management believes such growth rates are justified because:

– the growth rates of these CGUs have significantly exceeded those in the market in the past years;

– the new product launch and new market expansion have been successful in the past;

– Market share grew continuously in the past years due to strong brand equity and marketing capability; and

– expertise on product innovation, portfolio enhancement and marketing will be further leveraged.

16. GOODWILL *(continued)*

The discount rates applied to cash flow projections and the growth rates used to extrapolate cash flows beyond the five-year period are as follows:

	Discount rate		Growth rate	
	2009	2008	**2009**	2008
Liquid milk products CGU	**13.44%**	12.04%	**4.0%**	4.0%
Ice cream products CGU	**13.33%**	12.06%	**3.0%**	3.0%
Other dairy products CGU	**13.00%**	11.64%	**4.0%**	4.0%

The carrying amounts of goodwill of approximately RMB199,143,000 (2008: RMB199,143,000) at 31 December 2009 allocated to the liquid milk products CGU, ice cream products CGU and other dairy products CGU were approximately RMB167,433,000 (2008: RMB167,433,000), RMB23,865,000 (2008: RMB23,865,000) and RMB7,845,000 (2008: RMB7,845,000), respectively.

Key assumptions were used in the value in use calculation of each CGU. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

(a) Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, adjusted for expected efficiency improvements and expected increase in production costs.

(b) Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant CGUs.

(c) Raw materials price fluctuation – Reference is made to the actual data of past year of countries from where raw materials are sourced.

The values assigned to key assumptions are consistent with external information sources.

17. OTHER INTANGIBLE ASSETS

Movements of the Group's other intangible assets are as follows:

	Patents and licences *RMB'000*	Trademarks *RMB'000*	Computer software *RMB'000*	Total *RMB'000*
Cost at 1 January 2009, net of accumulated amortisation	**6,056**	**12,960**	**13,651**	**32,667**
Additions	**2,882**	**–**	**8,165**	**11,047**
Deemed disposal of a subsidiary	**(7,719)**	**–**	**(54)**	**(7,773)**
Amortisation provided during the year	**(611)**	**(1,560)**	**(2,133)**	**(4,304)**
At 31 December 2009	**608**	**11,400**	**19,629**	**31,637**
At 31 December 2009				
Cost	**764**	**15,690**	**26,318**	**42,772**
Accumulated amortisation	**(156)**	**(4,290)**	**(6,689)**	**(11,135)**
Net carrying amount	**608**	**11,400**	**19,629**	**31,637**
Cost at 1 January 2008, net of accumulated amortisation	6,414	14,520	10,470	31,404
Additions	249	–	5,064	5,313
Amortisation provided during the year	(607)	(1,560)	(1,883)	(4,050)
At 31 December 2008	6,056	12,960	13,651	32,667
At 31 December 2008				
Cost	7,249	15,690	18,220	41,159
Accumulated amortisation	(1,193)	(2,730)	(4,569)	(8,492)
Net carrying amount	6,056	12,960	13,651	32,667

18. INTERESTS IN SUBSIDIARIES

	Company 2009 RMB'000	Company 2008 RMB'000
Unlisted shares, at cost	**4,015,010**	3,785,449
Loan to a subsidiary	**804,847**	806,136
	4,819,857	4,591,585
Less: Interest in a subsidiary with a view to resale *(note 10)*	**–**	(67,004)
	4,819,857	4,524,581

The loan to a subsidiary included in the interests in subsidiaries above is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the loan to a subsidiary approximates to its fair value.

Details of the Company's subsidiaries at 31 December 2009 are set out below:

Name	Date of incorporation/ establishment*	Issued share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
China Dairy Holdings (i)	5 June 2002	US$214	100%	–	Investment holding
China Dairy (Mauritius) Limited (i)	15 June 2002	US$100	–	100%	Investment holding
Inner Mongolia Mengniu Dairy (Group) Company Limited (iii) (內蒙古蒙牛乳業（集團）股份有限公司)	18 August 1999	RMB802,288,466	8.97%	84.32%	Manufacture and sale of dairy products
Beijing Mengniu Dairy Co., Ltd. (i) (ii) (iv) (北京蒙牛乳製品有限責任公司)	4 July 2000	RMB500,000	–	48.51%	Packaging and sale of dairy products
Inner Mongolia Mengniu Founding Industry Management Co., Ltd. (i) (ii) (內蒙古蒙牛方鼎產業管理有限責任公司)	9 February 2002	RMB45,000,000	–	93.29%	Investment holding
Mengniu Dairy (Wulanhaote) Co., Ltd. (i) (iii) (蒙牛乳業（烏蘭浩特）有限責任公司)	18 June 2002	RMB30,000,000	–	93.29%	Manufacture and sale of dairy products

18. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Date of incorporation/ establishment*	Issued share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Inner Mongolia Mengniu Dairy Keerqin Co., Ltd. (i) (iii) (內蒙古蒙牛乳業科爾沁有限責任公司)	19 June 2002	RMB35,000,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy (Dangyang) Co., Ltd. (i) (iii) (蒙牛乳業(當陽)有限責任公司)	7 November 2002	RMB42,000,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy (Beijing) Co., Ltd. (i) (iii) (蒙牛乳業(北京)有限責任公司)	11 November 2002	RMB120,000,000	26.70%	68.38%	Manufacture and sale of dairy products
Jinhua Mengniu Dairy Co., Ltd. (i) (ii) (iv) (金華蒙牛乳業有限公司)	19 February 2003	RMB500,000	–	47.58%	Manufacture and sale of dairy products
Mengniu Dairy (Shenyang) Co., Ltd. (i) (iii) (蒙牛乳業(瀋陽)有限責任公司)	4 December 2003	RMB100,000,000	26.05%	68.99%	Manufacture and sale of dairy products
Beijing Mengniu Hongda Dairy Co., Ltd. (i) (ii) (iv) (北京蒙牛宏達乳製品有限責任公司)	12 September 2002	RMB20,000,000	–	48.51%	Packaging and sale of dairy products
Inner Mongolia Mengniu Dairy Baotou Co., Ltd. (i) (iii) (內蒙古蒙牛乳業包頭有限責任公司)	9 January 2003	RMB30,000,000	26.40%	68.66%	Manufacture and sale of dairy products
Mengniu Dairy (Dengkou Bayan Gaole) Co., Ltd. (i) (iii) (蒙牛乳業(磴口巴彥高勒)有限責任公司)	13 July 2003	RMB40,000,000	–	93.29%	Manufacture and sale of dairy products
Inner Mongolia Mengniu Dairy (Group) Shanxi Dairy Co., Ltd. (i) (ii) (內蒙古蒙牛乳業(集團)山西乳業有限公司)	14 July 2003	RMB10,000,000	–	83.96%	Manufacture and sale of dairy products
Mengniu Dairy (Jiaozuo) Co., Ltd. (i) (iii) (蒙牛乳業(焦作)有限公司)	6 November 2003	RMB110,000,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy Taian Co., Ltd. (i) (iii) (蒙牛乳業泰安有限責任公司)	18 November 2003	RMB110,000,000	26.03%	69.01%	Manufacture and sale of dairy products

18. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Date of incorporation/ establishment*	Issued share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Mengniu Dairy (Luannan) Co., Ltd. (i) (iii) （蒙牛乳業（灤南）有限責任公司）	31 March 2004	RMB56,000,000	26.06%	68.98%	Manufacture and sale of dairy products
Mengniu Dairy (Tangshan) Co., Ltd. (i) (iii) （蒙牛乳業（唐山）有限責任公司）	31 March 2004	RMB70,000,000	26.05%	68.99%	Manufacture and sale of dairy products
Mengniu Dairy (Maanshan) Co., Ltd. (i) (iii) （蒙牛乳業（馬鞍山）有限責任公司）	4 February 2005	RMB155,000,000	–	93.29%	Manufacture and sale of dairy products
Mengniu (Wuhan) Frealth Dairy Co., Ltd. (i) (iii) （蒙牛（武漢）友芝友乳業有限公司）	6 January 2006	RMB120,000,000	–	93.29%	Manufacture and sale of dairy products
Inner Mongolia Mengniu Hi-tech Dairy Co., Ltd. (i) (ii) （內蒙古蒙牛高科乳業有限公司）	2 August 2006	RMB150,000,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy (Tai Yuan) Co., Ltd. (i) (ii) （蒙牛乳業（太原）有限公司）	13 April 2006	RMB116,670,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy (Shangzhi) Co., Ltd. (i) (ii) （蒙牛乳業（尚志）有限責任公司）	10 June 2005	RMB50,000,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy (Chabei) Co., Ltd. (i) (ii) （蒙牛乳業（察北）有限公司）	15 June 2005	RMB30,000,000	–	72.77%	Manufacture and sale of dairy products
Mengniu Dairy (Baoji) Co., Ltd. (i) (iii) （蒙牛乳業（寶雞）有限公司）	1 November 2005	RMB96,840,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy (Baoding) Co., Ltd. (i) (ii) （蒙牛乳業（保定）有限公司）	22 January 2007	RMB62,000,000	–	93.29%	Manufacture and sale of dairy products
Beijing Mengniu Cheese Co., Ltd. (i) (ii) （北京蒙牛奶酪有限公司）	23 May 2007	RMB5,000,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Dairy Meishan Co., Ltd. (i) (ii) （蒙牛乳業眉山有限公司）	29 August 2007	RMB60,000,000	–	93.29%	Manufacture and sale of dairy products
Mengniu Saibei Dairy Co., Ltd. (i) (iii) （蒙牛塞北乳業有限公司）	29 August 2007	RMB67,121,418	26%	69.03%	Manufacture and sale of dairy products

18. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Date of incorporation/ establishment*	Issued share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Mengniu Dairy (Qiqihaer) Co., Ltd. (i) (ii) (蒙牛乳業（齊齊哈爾）有限公司)	23 November 2007	RMB55,500,000	26%	69.03%	Manufacture and sale of dairy products
Mengniu Dairy (Qingyuan) Co., Ltd. (i) (ii) (蒙牛乳業（清遠）有限公司)	25 September 2009	RMB40,000,000	–	93.29%	Manufacture and sale of dairy products

* Except for China Dairy Holdings and China Dairy (Mauritius) Limited, which were incorporated in the Cayman Islands and Mauritius, respectively, all subsidiaries were incorporated in the PRC.

(i) Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

(ii) The subsidiaries are registered as companies with limited liability under the PRC law.

(iii) The subsidiaries are registered as Sino-foreign equity joint ventures under the PRC law.

(iv) Since more than 50% of the equity interest of the subsidiaries was held by Mengniu in which the Company held a 93.29% equity interest, the Company had control over the subsidiaries even with less than 50% of equity interest held indirectly as at the end of reporting period.

19. INTERESTS IN ASSOCIATES

	Group 2009 RMB'000	Group 2008 RMB'000
Share of net assets	**67,383**	40,107

Details of the Group's associates at 31 December 2009 are set out below:

Name	Particulars of issued shares held	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group (indirect) 2009	2008	Principal activities
Xinjiang Tianxue Food Co., Ltd. (i) (新疆天雪食品有限公司)	Registered capital	Mainland China	**23%**	23%	Trading of dairy products
Fuzhou Mengxin Trading Co., Ltd. (i) (福州蒙鑫貿易有限公司)	Registered capital	Mainland China	**43%**	43%	Trading of dairy products
Shijiazhuang Mengniu Ice Cream Sales Co., Ltd. (i) (石家莊蒙牛冰淇淋銷售有限公司)	Registered capital	Mainland China	**37%**	37%	Trading of dairy products
Tianjin Mengniu Ice Cream Sales Co., Ltd. (i) (天津蒙牛冰淇淋銷售有限責任公司)	Registered capital	Mainland China	**37%**	37%	Trading of dairy products
Guangzhou Mengniu Dairy Trading Co., Ltd. (i) (廣州市蒙牛乳業貿易有限公司)	Registered capital	Mainland China	**37%**	37%	Trading of dairy products
Wuhan Mengniu Dairy Co., Ltd. (i) (武漢蒙牛乳業有限公司)	Registered capital	Mainland China	**26%**	26%	Trading of dairy products
Guilin Mengniu Dairy Sales Co., Ltd. (i) (桂林蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**37%**	37%	Trading of dairy products
Tianjin Mengniu Dairy Sales Co., Ltd. (i) (天津市蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**37%**	37%	Trading of dairy products
Wenzhou Mengniu Dairy Co., Ltd. (i) (溫州蒙牛乳業有限公司)	Registered capital	Mainland China	**37%**	37%	Trading of dairy products

19. INTERESTS IN ASSOCIATES *(continued)*

Name	Particulars of issued shares held	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group (indirect) 2009	2008	Principal activities
Heilongjiang Mengniu Dairy Sales Co., Ltd. (i) (黑龍江蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**42%**	42%	Trading of dairy products
Chengdu Mengniu Dairy Sales Co., Ltd. (i) (成都蒙牛乳業銷售有限責任公司)	Registered capital	Mainland China	**34%**	34%	Trading of dairy products
Nanjing Mengniu Dairy Sales Co., Ltd. (i) (南京蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**42%**	42%	Trading of dairy products
Jinan Mengniu Dairy Co., Ltd. (i) (濟南蒙牛乳業有限公司)	Registered capital	Mainland China	**42%**	42%	Trading of dairy products
Taiyuan Mengniu Dairy Co., Ltd. (i) (太原市蒙牛乳業有限公司)	Registered capital	Mainland China	**37%**	37%	Trading of dairy products
Nanchang Mengniu Dairy Sales Co., Ltd. (i) (南昌蒙牛乳業銷售有限責任公司)	Registered capital	Mainland China	**42%**	42%	Trading of dairy products
Chongqing Mengniu Dairy Sales Co., Ltd. (i) (重慶市蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**37%**	37%	Trading of dairy products
Hefei Mengniu Dairy Sales Co., Ltd. (i) (合肥市蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**39%**	46%	Trading of dairy products
Shijiazhuang Jinmengyuan Trading Co., Ltd. (i) (石家莊金蒙源貿易有限責任公司)	Registered capital	Mainland China	**37%**	42%	Trading of dairy products
Beijing Mengniu Technical Development Co., Ltd. (i) (ii) (北京蒙牛科技發展有限公司)	Registered capital	Mainland China	**19%**	19%	Technology development
Wulumuqi Mengniu Dairy Sales Co., Ltd. (i) (烏魯木齊蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**37%**	37%	Trading of dairy products
Kunming Deluxe Commercial Trading Co., Ltd. (i) (昆明特侖蘇商貿有限公司)	Registered capital	Mainland China	**42%**	42%	Trading of dairy products

19. INTERESTS IN ASSOCIATES *(continued)*

Name	Particulars of issued shares held	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group (indirect) 2009	2008	Principal activities
Changsha Mengniu Dairy Co., Ltd. (i) (長沙市蒙牛乳業有限責任公司)	Registered capital	Mainland China	**37%**	37%	Trading of dairy products
Xi'an Mengniu Dairy Sales Co., Ltd. (i) (西安蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**43%**	43%	Trading of dairy products
Changchun Mengniu Dairy Sales Co., Ltd. (i) (長春蒙牛乳品銷售有限公司)	Registered capital	Mainland China	**42%**	42%	Trading of dairy products
Xuzhou Mengniu Dairy Sales Co., Ltd. (i) (徐州蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**37%**	37%	Trading of dairy products
Foshan Mengniu Dairy Sales Co., Ltd. (i) (佛山市蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**46%**	33%	Trading of dairy products
Guiyang Mengniu Dairy Trading Co., Ltd. (i) (貴陽蒙牛乳業貿易有限公司)	Registered capital	Mainland China	**42%**	42%	Trading of dairy products
Shengyang Mengniu Dairy Sales Co., Ltd. (i) (ii) (瀋陽蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**19%**	19%	Trading of dairy products
Xiangfan Mengniu Dairy Sales Co., Ltd. (i) (襄樊市蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**46%**	46%	Trading of dairy products
Hangzhou Mengniu Dairy Trading Co., Ltd. (i) (杭州蒙牛貿易有限公司)	Registered capital	Mainland China	**42%**	42%	Trading of dairy products
Suzhou Mengniu Dairy Sales Co., Ltd. (i) (蘇州蒙牛乳製品銷售有限公司)	Registered capital	Mainland China	**42%**	42%	Trading of dairy products
Guangzhou Mengniu Dairy Sales Co., Ltd. (i) (廣州市蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**29%**	29%	Trading of dairy products
Shanghai Mengniu Food Sales Co., Ltd. (i) (上海蒙牛食品銷售有限公司)	Registered capital	Mainland China	**42%**	42%	Trading of dairy products

19. INTERESTS IN ASSOCIATES *(continued)*

Name	Particulars of issued shares held	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group (indirect) 2009	2008	Principal activities
Hohhot Menglai Trading Co., Ltd. (i) （呼和浩特市蒙萊商貿有限責任公司）	Registered capital	Mainland China	**42%**	42%	Trading of dairy products
Cangzhou Mengniu Dairy Sales Co., Ltd. (i) （滄州市蒙牛乳業銷售有限公司）	Registered capital	Mainland China	**42%**	42%	Trading of dairy products
Changsha Mengniu Frealth Dairy Sales Co., Ltd. (i) （長沙蒙牛友芝友乳業銷售有限公司）	Registered capital	Mainland China	**42%**	42%	Trading of dairy products
Changsha Mengniu Ice Cream Sales Co. Ltd. (i) （長沙蒙牛冰淇淋銷售有限公司）	Registered capital	Mainland China	**42%**	42%	Trading of dairy products
Wuhan Mengniu Hongtai Sales Co., Ltd. (i) （武漢蒙牛宏泰食品銷售有限公司）	Registered capital	Mainland China	**42%**	42%	Trading of dairy products
Nanjing Wanjiahao Mengniu Ice Cream Sales Co., Ltd. (i) （南京萬家好蒙牛冰淇淋銷售有限公司）	Registered capital	Mainland China	**42%**	42%	Trading of dairy products
Hefei Mengniu Ice Cream Sales Co., Ltd. (i) （合肥蒙牛冰淇淋銷售有限公司）	Registered capital	Mainland China	**42%**	42%	Trading of dairy products
Nanjing Mengniu Low Temperature Dairy Products Sales Co., Ltd. (i) （南京蒙牛乳業低温乳品銷售有限公司）	Registered capital	Mainland China	**42%**	42%	Trading of dairy products
Changsha Mengniu Low Temperature Dairy Products Sales Co., Ltd. (i) （長沙蒙牛乳業低溫乳製品銷售有限公司）	Registered capital	Mainland China	**37%**	–	Trading of dairy products
Guangzhou Mengniu Low Temperature Dairy Sales Co., Ltd. (i) （廣州市蒙牛乳業低溫奶銷售有限公司）	Registered capital	Mainland China	**42%**	–	Trading of dairy products
Jinhua Mengniu Ice Cream Sales Co., Ltd. (i) （金華蒙牛冰淇淋銷售有限公司）	Registered capital	Mainland China	**42%**	–	Trading of dairy products

19. INTERESTS IN ASSOCIATES *(continued)*

Name	Particulars of issued shares held	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group (indirect) 2009	2008	Principal activities
Dalian Mengniu Ice Cream Sales Co., Ltd. (i) (大連蒙牛冰淇淋銷售有限公司)	Registered capital	Mainland China	**42%**	–	Trading of dairy products
Nanchang Mengniu Ice Cream Sales Co., Ltd. (i) (南昌蒙牛冰淇淋銷售有限公司)	Registered capital	Mainland China	**42%**	–	Trading of dairy products
Hengyang Mengniu Ice Cream Sales Co., Ltd. (i) (衡陽蒙牛冰淇淋銷售有限公司)	Registered capital	Mainland China	**42%**	–	Trading of dairy products
Taiyuan Mengniu Low Temperature Dairy Sales Co., Ltd. (i) (太原蒙牛乳業低溫乳品銷售有限公司)	Registered capital	Mainland China	**42%**	–	Trading of dairy products
Xi'an Mengniu Low Temperature Dairy Sales Co., Ltd. (i) (西安蒙牛乳業低溫乳品銷售有限公司)	Registered capital	Mainland China	**42%**	–	Trading of dairy products
Zhanjiang Mengniu Dairy Sales Co., Ltd. (i) (湛江市蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**42%**	–	Trading of dairy products
Dezhou Mengniu Dairy Sales Co., Ltd. (i) (德州市蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**42%**	–	Trading of dairy products
Zhaoqing Mengniu Dairy Sales Co., Ltd. (i) (肇慶市蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**29%**	–	Trading of dairy products
Liuzhou Mengniu Dairy Sales Co., Ltd. (i) (柳州蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**33%**	–	Trading of dairy products
Quanzhou Mengniu Hongtai Sales Co., Ltd. (i) (泉州市蒙牛乳業鴻泰銷售有限公司)	Registered capital	Mainland China	**23%**	–	Trading of dairy products
Harbin Mengniu Frozen Food Sales Co., Ltd. (i) (哈爾濱蒙牛冷凍食品銷售有限公司)	Registered capital	Mainland China	**42%**	–	Trading of dairy products

19. INTERESTS IN ASSOCIATES *(continued)*

Name	Particulars of issued shares held	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group (indirect) 2009	2008	Principal activities
Harbin Mengniu Trading Co., Ltd. (i) (哈爾濱蒙牛商貿有限公司)	Registered capital	Mainland China	**37%**	–	Trading of dairy products
Jiaxing Mengniu Dairy Sales Co., Ltd. (i) (嘉興蒙牛乳品銷售有限公司)	Registered capital	Mainland China	**46%**	–	Trading of dairy products
Hengshui Guangyuanjuxing Trading Co., Ltd. (i) (衡水市廣源聚鑫商貿有限公司)	Registered capital	Mainland China	**46%**	–	Trading of dairy products
Kunming Mengniu Sales Co., Ltd. (i) (昆明蒙牛乳業銷售有限公司)	Registered capital	Mainland China	**42%**	–	Trading of dairy products
Inner Mongolia Mengniu Breeding Biotech Co., Ltd. (i) *(note 41)* (內蒙古蒙牛繁育生物技術有限公司)	Registered capital	Mainland China	**28%**	61%	Cultivation and sale of cattle embryos

(i) Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

(ii) Since more than 20% of the equity interest of the associates was held by Mengniu, in which the Company held a 93.29% equity interest, the Company had significant influence over the associates even with less than 20% of equity interest held indirectly as at the end of the reporting period.

19. INTERESTS IN ASSOCIATES *(continued)*

The following table illustrates the summarised financial information of the Group's associates extracted from their unaudited management accounts:

	2009	2008
	RMB'000	*RMB'000*
Share of the associates' assets and liabilities:		
Current assets	**318,464**	90,590
Non-current assets	**26,331**	10,619
Current liabilities	**(276,380)**	(61,102)
Non-current liabilities	**(1,032)**	–
Net assets	**67,383**	40,107
Share of the associates' revenues and profits and losses:		
Revenues	**1,619,942**	1,610,702
Profits and losses	**19,522**	29,447

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

Details of the Company's jointly controlled entity are set out below:

Name	Particulars of issued shares held	Place of establishment and operations	Percentage of equity interest attributable to the Group (indirect) 2009	2008	Principal activities
Mengniu Arla (Inner Mongolia) Dairy Products Co. Ltd. (i) (內蒙古蒙牛阿拉乳製品有限責任公司)	Registered capital	Mainland China	**46.65%**	46.65%	Manufacture and sale of dairy products

(i) Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

20. INTEREST IN A JOINTLY CONTROLLED ENTITY *(continued)*

The share of the assets, liabilities, income and expenses of the jointly controlled entity at 31 December 2009 and for the year then ended, which is included in the consolidated financial statements, is as follows:

	2009 RMB'000	2008 RMB'000
Share of the assets and liabilities:		
Current assets	**75,160**	68,448
Non-current assets	**225,164**	236,795
Current liabilities	**(191,410)**	(164,662)
Non-current liabilities	**–**	(65,308)
Net assets	**108,914**	75,273
Share of the revenue and loss:		
Revenue	**258,599**	145,035
Cost of sales and operating expenses	**(264,958)**	(232,861)
Loss	**(6,359)**	(87,826)

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2009 RMB'000	2008 RMB'000
Unlisted equity investments, at cost	**17,409**	18,029

22. DEFERRED TAX ASSETS

	Group	
	2009 RMB'000	2008 RMB'000
At 1 January	**186,881**	6,302
Deferred tax credited/(debited) to the consolidated income statement during the year *(note 9)*	**(55,140)**	180,579
Gross deferred tax assets at 31 December	**131,741**	186,881

22. DEFERRED TAX ASSETS *(continued)*

Deferred income tax assets at 31 December 2009 related to the following:

	Consolidated statement of financial position		Consolidated income statement	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Losses available for offsetting against future taxable profits	**91,878**	150,889	**(59,011)**	150,889
Write-down of inventories to net realisable value	**131**	26,992	**(26,861)**	26,992
Un-invoiced accruals	**16,925**	9,000	**7,925**	2,698
Deferred income	**22,807**	–	**22,807**	–
Deferred tax assets	**131,741**	186,881		
Deferred income tax income/(expense)			**(55,140)**	180,579

Management expects it is probable that taxable profit will be available against which the above tax losses and deductible temporary differences can be utilised in the coming years.

Deferred tax assets have not been recognised in respect of the following items:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Tax losses arising in Mainland China (i)	**205,373**	203,317
Tax credits related to purchases of domestic equipment (ii)	**100,034**	147,322
Deductible temporary differences	**143,272**	172,063
	448,679	522,702

(i) Tax losses can be carried forward over five years to offset the future taxable profit.

(ii) Tax credits can be carried forward over five to seven years to offset the tax payables if the future year tax exceeded the base year tax.

22. DEFERRED TAX ASSETS *(continued)*

Pursuant to the New Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2009, no deferred tax liabilities (2008: Nil) have been recognised for the withholding taxes that would be payable on the unremitted earnings by Mengniu and other subsidiaries whose certain interests were directly held by the Company which were established in Mainland China as the directors of the Company represented that there was no plan to distribute the earnings generated in 2009.

At 31 December 2009, there was no significant unrecognised deferred tax liabilities (2008: Nil) for taxes that would be payable on the unremitted earnings of certain of Mengniu's subsidiaries and associates, as Mengniu has no liability to additional tax should such amount be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Except for the amount disclosed above, the Group and the Company did not have any material unrecognised deferred tax liabilities or deferred tax assets at 31 December 2009 (2008: Nil).

23. OTHER FINANCIAL ASSETS

Other financial assets represented entrusted loans to certain dairy farmers via banks. A maturity analysis of the entrusted loans of the Group is as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within 1 year	**10,222**	9,413
1 to 2 years	**11,399**	8,460
2 to 3 years	**3,870**	9,873
Over 3 years	**5,599**	–
Total entrusted loans	**31,090**	27,746
Less: Amount due within one year included in current assets under other receivables *(note 28)*	**(10,222)**	(9,413)
	20,868	18,333

The annual interest rates of the entrusted loans varied from 5.76% to 8.02% (2008: 6.0% to 7.7%).

24. INVENTORIES

	Group	
	2009	2008
	RMB'000	*RMB'000*
Raw materials	**507,721**	483,765
Finished goods	**207,176**	340,688
Total inventories at the lower of cost and net realisable value	**714,897**	824,453

The amount of write-down of inventories recognised as an expense was RMB1,033,000 (2008: RMB179,873,000) which was recognised in other operating expenses (note 5).

25. 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:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within 3 months	**51,949**	64,678
4 to 6 months	**500**	100
	52,449	64,778

As at 31 December 2009, the bills receivable amounting to approximately RMB41,036,000 (2008: RMB50,000,000) were factored with recourse to financial institutions. The corresponding amount was recorded as short term bank loans (note 33).

The amounts due from associates of approximately RMB5,683,000 (2008: RMB488,000) are included in the above balances.

26. TRADE RECEIVABLES

	Group	
	2009	2008
	RMB'000	*RMB'000*
Trade receivables	**529,805**	285,823
Impairment	**(2,502)**	(1,744)
	527,303	284,079

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.

26. TRADE RECEIVABLES *(continued)*

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
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
	527,303	284,079

The movements in the provision for impairment of trade receivables are as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**1,744**	3,822
Impairment losses recognised	**2,100**	587
Amount written off as uncollectible	**–**	(398)
Impairment losses reversed	**(1,342)**	(2,267)
At 31 December	**2,502**	1,744

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Neither past due nor impaired	**504,804**	247,008
Past due but not impaired		
– Within 3 months	**–**	6,663
	504,804	253,671

26. TRADE RECEIVABLES *(continued)*

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The amounts due from associates of approximately RMB280,354,000 (2008: RMB137,244,000) and an amount due from a jointly controlled entity of approximately RMB4,248,000 (2008: RMB9,257,000) are included in the above balances. These balances are unsecured, non-interest-bearing and are repayable on credit terms similar to those offered to other major customers of the Group.

27. PREPAYMENTS AND DEPOSITS

	Group	
	2009	2008
	RMB'000	*RMB'000*
Deposits	**2,674**	2,218
Prepayments	**253,047**	137,716
Value-added tax recoverable	**–**	185,651
Corporate income tax recoverable	**8,850**	43,362
Land use rights – current portion *(note 15)*	**8,056**	5,957
	272,627	374,904

The amount due from an associate of approximately RMB2,676,000 (2008: RMB1,449,000) is included in the above balances.

28. OTHER RECEIVABLES

The balance of other receivables can be analysed as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Dividends receivable	**3,198**	11,216
Other financial assets *(note 23)*	**10,222**	9,413
Others	**52,782**	70,050
Total	**66,202**	90,679

	Company	
	2009	2008
	RMB'000	*RMB'000*
Loan to a subsidiary	**1,436,930**	955,198
Others	**94**	86
Total	**1,437,024**	955,284

The loan to a subsidiary included in other receivables above is unsecured, interest-bearing and repayable within one year. The carrying amount of the loan to a subsidiary approximates to its fair value.

29. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	Group	
	2009	2008
	RMB'000	*RMB'000*
Cash and cash equivalents	**3,986,624**	2,218,965
Pledged deposits	**230,968**	41,693
Time deposits with original maturity of more than three months	**2,163,397**	823,000
	6,380,989	3,083,658
Less: Deposits pledged for banking facilities *(note 31and 33)*	**(230,968)**	(41,693)
Cash and bank balances	**6,150,021**	3,041,965

29. CASH AND BANK BALANCES AND PLEDGED DEPOSITS *(continued)*

	Company	
	2009	2008
	RMB'000	*RMB'000*
Cash and bank balances	**2,354,922**	54,058

Cash at banks earns interest at the prevailing market interest rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. Cash and bank balances amounting to approximately RMB3,626,788,000 (2008: RMB2,991,463,000) were denominated in Renminbi, which is not freely convertible in the international foreign exchange market and whose exchange rate is determined by the People's Bank of China.

30. TRADE PAYABLES

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
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

An amount due to an associate of approximately RMB2,000 (2008: RMB306,000) is included in the above balances. The balance is unsecured, non-interest-bearing and repayable on demand.

The Group's trade payables are unsecured and non-interest-bearing.

31. BILLS PAYABLE

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within 3 months	**712,105**	239,145
4 to 6 months	**96,304**	200
	808,409	239,345

Except for an aggregate balance of approximately RMB612,301,000 (2008: RMB161,528,000) secured by the pledge of certain of the Group's deposits amounting to approximately RMB142,190,000 (2008: RMB39,139,000) (note 29), bills payable are unsecured. The above balances are non-interest-bearing.

32. ACCRUALS AND CUSTOMERS' DEPOSITS

	Group	
	2009	2008
	RMB'000	*RMB'000*
Advances from customers	**373,939**	609,639
Salary and welfare payables	**185,352**	135,896
	559,291	745,535

The amounts due to associates of approximately RMB88,087,000 (2008: RMB87,278,000) are included in the above balances. The balances are unsecured, non-interest-bearing and are repayable on demand.

33. INTEREST-BEARING BANK LOANS

	Group					
	2009			2008		
	Maturity	Fixed rate RMB'000	Floating rate RMB'000	Maturity	Fixed rate RMB'000	Floating rate RMB'000
Short term bank loans, secured	**2010**	**126,170**	**–**	2009	50,000	–
Short term bank loans, unsecured	**2010**	**197,423**	**–**	2009	670,252	488,408
Long term bank loans, unsecured	**2011-2012**	**–**	**350,000**	2010-2011	–	520,000
		323,593	**350,000**		720,252	1,008,408

At 31 December 2009, short term bank loans of approximately RMB126,170,000 (2008: RMB50,000,000) was secured by certain bills receivable of the Group (note 25) and pledged deposits (note 29).

During the year, the annual interest rates of the short term bank loans and the long term bank loans varied from 1.19% to 6.93% and from 4.86% to 7.25% (2008: varied from 5.02% to 6.93% and from 3.53% to 7.43%), respectively. As at 31 December 2009, except for a short term bank loan of US$19,412,000 equivalent to approximately RMB132,931,000 (2008: US$4,925,000) denominated in United States dollars, all the Group's interest-bearing bank loans were denominated in RMB.

The repayment schedule of the bank loans is as follows:

	Group	
	2009 *RMB'000*	2008 *RMB'000*
Within 1 year	**323,593**	1,208,660
1 to 2 years	**200,000**	400,000
2 to 5 years	**150,000**	120,000
Total interest-bearing bank loans	**673,593**	1,728,660
Less: Amount due within 1 year included in current liabilities	**(323,593)**	(1,208,660)
	350,000	520,000

34. OTHER LOANS

	Group	
	2009	2008
	RMB'000	*RMB'000*
Short term, unsecured	**106,947**	72,942

The other loans represented unsecured and interest-free loans for the purpose of supporting the Group's establishment of production plants in various locations in the PRC, with no repayment terms from various local government authorities.

35. LONG TERM PAYABLES

The Group's long term payables represent the amortised costs of the outstanding instalments payable for the purchase of production equipment. The effective interest rate used for the amortisation is the prevailing market interest rate. The balances are repayable as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within 1 year	**83,237**	168,795
1 to 2 years	**37,773**	84,910
2 to 5 years	**12,106**	20,254
Over 5 years	**–**	2,824
Total long term payables	**133,116**	276,783
Less: Amount due within 1 year included in current liabilities under other payables	**(83,237)**	(168,795)
	49,879	107,988

Certain long term payables are secured by the Group's property, plant and equipment (note 13(b)).

36. DEFERRED INCOME

Various local government authorities have granted certain property, plant and equipment to the Group for nil consideration and provided finance to the Group to purchase certain property, plant and equipment by way of a cash donation. Both the property, plant and equipment and grants are recorded initially at fair value. The grants received are regarded as deferred income, which is amortised to match the depreciation charge of such property, plant and equipment granted or purchased in accordance with their estimated useful lives. Movements of the balances during the year are as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
At beginning of year	**196,128**	190,745
Received during the year	**61,442**	17,928
Amortisation during the year	**(13,795)**	(12,545)
At end of year	**243,775**	196,128
Current portion	**13,162**	12,918
Non-current portion	**230,613**	183,210
	243,775	196,128

37. SHARE CAPITAL

	2009	2008
	RMB'000	*RMB'000*
Authorised:		
3,000,000,000 ordinary shares of HK$0.1 each	**319,235**	319,235

37. SHARE CAPITAL *(continued)*

	Notes	Number of ordinary shares '000	RMB'000
At 1 January 2009		**1,561,640**	**163,137**
Issue of shares	*(a)*	**173,800**	**15,320**
Shares issued under the equity-settled share option scheme	*(b)*	**1,752**	**154**
At 31 December 2009		**1,737,192**	**178,611**

	Notes	Number of ordinary shares '000	RMB'000
At 1 January 2008		1,426,120	151,277
Issue of shares	*(c)*	135,328	11,843
Shares issued under the equity-settled share option scheme	*(b)*	192	17
At 31 December 2008		1,561,640	163,137

(a) On 5 July 2009, the Company completed the placing of 173,800,000 new shares of the Company with a par value of HK$0.10 each at the placing price of HK$17.60 (equivalent to RMB15.50) per share, resulting in proceeds, net of share issue expenses, of approximately HK$3,058,000,000 (equivalent to approximately RMB2,694,483,000). The placing gave rise to a share premium of HK$3,040,620,000 (equivalent to approximately RMB2,679,163,000), being the excess of the gross proceeds less share issue expenses over the par value of the new shares issued of HK$17,380,000 (equivalent to approximately RMB15,320,000). Details of the subscription of new shares were disclosed in the Company's announcement dated 6 July 2009.

(b) Details of the Company's share option scheme and the share options issued under the scheme are included in note 40 to the financial statements.

37. SHARE CAPITAL *(continued)*

(c) On 25 July 2008, the Company acquired an additional 8.97% equity interest in Mengniu from certain sellers (the "Sellers") by allotting and issuing 135,328,255 ordinary shares of the Company (the "Consideration Shares") to the Sellers with a par value of HK$0.10 each. The Consideration Shares represented approximately 9.49% and 8.67% of the issued share capital of the Company as at 25 July 2008, prior to and post the issue of the Consideration Shares, respectively.

The closing stock price of the Company on 25 July 2008 was HK$23.50 (equivalent to RMB20.57) per share, resulting in proceeds of approximately HK$3,180,214,000 (equivalent to approximately RMB2,783,037,000). The placing gave rise to a share premium of HK$3,166,681,000 (equivalent to approximately RMB2,771,194,000), being the excess of the gross proceeds over the par value of the new shares issued of HK$13,532,826 (equivalent to approximately RMB11,843,000) in the financial statements of the Company.

The carrying amount of the additional interest of Mengniu acquired by the Company was RMB433,984,000 on 25 July 2008. The excess of fair value of the ordinary share of the Company issued to effect the acquisition over the carrying amount of the additional interest acquired by the Company of RMB2,349,053,000 was recognised by the Group in the share premium account, resulting in a net impact of RMB422,141,000 to the consolidated share premium account as a result of the acquisition of an additional interest in Mengniu.

38. RESERVES

(A) Group

Movements in the other reserves of the Group during the year are as follows:

	Share premium RMB'000	Contributed surplus RMB'000 Note (a)	Statutory reserves RMB'000 Note (b)	Currency translation differences RMB'000	Share option reserve RMB'000 Note 40	Total RMB'000
At 1 January 2008	2,473,172	232,020	720,918	(55,832)	42,341	3,412,619
Issue of shares for acquisition of an additional interest in a subsidiary *(note 37)*	422,141	–	–	–	–	422,141
Transfer to statutory reserves	–	–	47,911	–	–	47,911
Shares issued under equity-settled share option arrangements *(note 40)*	2,245	–	–	–	–	2,245
Currency translation differences	–	–	–	(81,614)	–	(81,614)
Equity-settled share option arrangements *(note 40)*	–	–	–	–	134,622	134,622
At 1 January 2009	**2,897,558**	**232,020**	**768,829**	**(137,446)**	**176,963**	**3,937,924**
Issue of shares *(note 37)*	**2,679,163**	**–**	**–**	**–**	**–**	**2,679,163**
Transfer to statutory reserves	**–**	**–**	**184,588**	**–**	**–**	**184,588**
Shares issued under equity-settled share option arrangements *(note 40)*	**20,515**	**–**	**–**	**–**	**–**	**20,515**
Currency translation differences	**–**	**–**	**–**	**(4,535)**	**–**	**(4,535)**
Equity-settled share option arrangements *(note 40)*	**–**	**–**	**–**	**–**	**284,646**	**284,646**
At 31 December 2009	**5,597,236**	**232,020**	**953,417**	**(141,981)**	**461,609**	**7,102,301**

38. RESERVES *(continued)*

(B) Company

Movements in the reserves of the Company during the year are as follows:

	Share premium RMB'000	Contributed surplus RMB'000 Note (a)	Currency translation differences RMB'000	Retained earnings RMB'000	Share option reserve RMB'000 Note 40	Total RMB'000
At 1 January 2008	2,473,172	387,574	(268,013)	106,217	42,341	2,741,291
Profit for the year *(note (d))*	–	–	–	203,319	–	203,319
Dividends paid	–	–	–	(187,667)	–	(187,667)
Issue of shares for acquisition of an additional interest in a subsidiary *(note 37)*	2,771,194	–	–	–	–	2,771,194
Shares issued under equity-settled share option arrangements *(note 40)*	2,245	–	–	–	–	2,245
Equity-settled share option arrangements *(note 40)*	–	–	–	–	134,622	134,622
Currency translation differences	–	–	(154,165)	–	–	(154,165)
At 1 January 2009	**5,246,611**	**387,574**	**(422,178)**	**121,869**	**176,963**	**5,510,839**
Profit for the year *(note (d))*	**–**	**–**	**–**	**54,175**	**–**	**54,175**
Issue of shares *(note 37)*	**2,679,163**	**–**	**–**	**–**	**–**	**2,679,163**
Shares issued under equity-settled share option arrangements *(note 40)*	**20,515**	**–**	**–**	**–**	**–**	**20,515**
Equity-settled share option arrangements *(note 40)*	**–**	**–**	**–**	**–**	**284,646**	**284,646**
Currency translation differences	**–**	**–**	**(12,279)**	**–**	**–**	**(12,279)**
At 31 December 2009	**7,946,289**	**387,574**	**(434,457)**	**176,044**	**461,609**	**8,537,059**

38. RESERVES *(continued)*

(B) Company *(continued)*

Notes:

(a) **Contributed surplus**

The balance of the contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation over the nominal value of the shares of the Company issued in exchange therefore and the excess of the amount of capital injected by the minority shareholder over its additional interest in the subsidiary's net assets attributable to the Company's owners was recorded as contributed surplus of the Group.

The contributed surplus of the Company represents the difference between the then combined net assets value of the subsidiaries acquired pursuant to the group reorganisation over the nominal value of the shares of the Company issued in exchange therefore.

(b) **Statutory reserves**

In accordance with the relevant PRC laws and regulations, the PRC domestic companies are required to transfer 10% of their profit after income tax, as determined under the PRC accounting standards and financial regulations, to the statutory common reserve. Subject to certain restrictions as set out in the relevant PRC laws and regulations, the statutory common reserve may be used to offset against the accumulated losses, if any.

(c) **Distributable reserves**

Under the Companies Law (2004 Revision) of the Cayman Islands, the share premium and contributed surplus of the Company are distributable to shareholders, provided that immediately following such distributions, the Company is able to pay off its debts as and when they fall due in the ordinary course of business.

(d) The profit attributable to owners of the Company for the year ended 31 December 2009 dealt with in the financial statements of the Company was RMB54,175,000 (2008: RMB203,319,000), including the dividend income from subsidiaries amounting to approximately RMB53,097,000 (2008: RMB169,116,000).

39. NON-CASH TRANSACTIONS

In addition to the non-cash transactions detailed elsewhere in these financial statements, during the year, no property, plant and equipment was purchased by the Group by means of long term payables (2008: RMB89,696,000).

40. SHARE-BASED PAYMENT PLAN

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers and any person or entity that provides research, development or technological support to the Group. The Scheme became effective on 28 June 2005 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the total number of shares of the Company in issue as at the date of approval and adoption of the Scheme provided that the Group may at any time seek approval from its shareholders to refresh the limit to 10% of the shares in issue as at the date of approval by the shareholders in general meeting where such limit is refreshed. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the total shares of the Company in issue at any time. Any further grant of share options in excess of these limits is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 20 business days from the date of offer, upon payment of a consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than six years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) The Stock Exchange of Hong Kong Limited (the "Stock Exchange") closing price of the Company's shares on the offer date of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five business days immediately preceding the offer date; and (iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

40. SHARE-BASED PAYMENT PLAN *(continued)*

Particulars of share options

Date of grant	Exercise period of share options (both dates inclusive)	Exercise price per share option *(note d)* *(HK$)*
26 October 2006	26 October 2007 to 25 October 2012 *(note a)*	13.40
9 November 2007	9 November 2009 to 8 November 2013 *(note b)*	32.24
18 August 2008	18 August 2010 to 17 August 2014 *(note b)*	22.03
23 November 2009	23 November 2011 to 22 November 2015 *(note c)*	24.40

(a) The share options will be vested in four equal batches with 25% of the share options granted vesting on the first, second, third and fourth anniversaries of the date of grant. In addition, the share options will only be vested if and when the pre-set performance targets of the Group, the division of the grantee and the grantee are achieved. Unless all of these targets are met, the share options will lapse.

(b) The share options will be vested in two equal batches with 50% of the share options granted vesting on the second and third anniversaries of the date of grant. In addition, the share options will only be vested if and when the pre-set performance targets of the Group, the division of the grantee and the grantee are achieved. Unless all of these targets are met, the share options will lapse.

(c) The share options will be vested in three batches with 20%, 40% and 40% of the share options granted vesting on, respectively, the second, third and fourth anniversaries of the date of the grant. In addition, the share options will only be vested if and when the pre-set performance targets of the Group, the division of the grantee and the grantee are achieved. Unless all of these targets are met, the share options will lapse.

Out of the 89,025,000 share options granted in aggregate, 20,116,500 share options are granted in exchange for and replacement of the outstanding share options previously granted on 9 November 2007 to better achieve the objectives of the Share Option Scheme (the “Replacement”).

(d) The exercise price per share option was the average closing share price for the five business days immediately preceding the grant date or the closing price of the share on the grant date.

40. SHARE-BASED PAYMENT PLAN *(continued)*

Movements of share options

2009

Date of grant	As at 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Replaced during the year	As at 31 December 2009
26 October 2006	5,452,401	–	(1,751,613)	(1,680,119)	–	2,020,669
9 November 2007	43,132,000	–	–	(23,015,500)	(20,116,500)*	–
18 August 2008	79,118,000	–	–	(4,129,000)	–	74,989,000
23 November 2009	–	89,025,000	–	–	–	89,025,000
Total	127,702,401	89,025,000	(1,751,613)	(28,824,619)	(20,116,500)	166,034,669

2008

Date of grant	As at 1 January 2008	Granted during the year	Exercised during the year	Lapsed during the year	Replaced during the year	As at 31 December 2008
26 October 2006	6,254,561	–	(192,065)	(610,095)	–	5,452,401
9 November 2007	44,605,000	–	–	(1,473,000)	–	43,132,000
18 August 2008	–	80,540,000	–	(1,422,000)	–	79,118,000
Total	50,859,561	80,540,000	(192,065)	(3,505,095)	–	127,702,401

* The incremental fair value granted as a result of the Replacement was estimated to be RMB68,666,000 in total, using the same measurement method as described below.

The average fair value of the share options granted during the year was estimated to be RMB7.87 each (2008: RMB6.68) at the grant date, using a binomial model, taking into account the terms and conditions upon which the instruments were granted. The contractual life of each option granted is six years. There are no cash settlement alternatives. The Group recognised an expense of RMB284,646,000 (note 6 and note 7) during the year ended 31 December 2009 (2008: RMB134,622,000).

Subsequent to the end of reporting period, out of the total outstanding share options of 166,034,669 units as at 31 December 2009 (2008: 127,702,401), no share options had lapsed due to the unfulfilment of vesting conditions attached (2008: 23,098,250).

40. SHARE-BASED PAYMENT PLAN *(continued)*

The following table lists the inputs to the model used:

	2009	2008
Dividend yield (%)	**1.0**	1.0
Expected volatility (%)	**43**	40
Risk-free interest rate (%)	**1.3-1.7**	3.0
Expected life of options (years)	**6**	6
Spot price (HK$ per share)	**24.4**	21.90
Exercise price (HK$ per share)	**24.4**	22.03

In light of the lack of an historical exercise record, the expected life of the options is based on the results of empirical studies performed in the United States and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The spot price is the closing price of the Company's shares at the grant date. The exercise price is the closing price of the share on the grant date.

The 1,751,613 share options (2008: 192,065) exercised during the year resulted in the issue of 1,751,613 (2008: 192,065) ordinary shares of the Company and new share capital of RMB154,000 (2008: RMB17,000) and share premium of RMB20,515,000 (2008: RMB2,245,000), as further detailed in note 37 to the financial statements. The weighted average share price at the date of exercise for these options was HK$21.93 (2008: HK$24.70).

At the end of the reporting period, the Company had 571,919 (2008: 2,387,901) share options being vested outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 571,919 (2008: 2,387,901) additional ordinary shares of the Company and additional share capital of RMB50,000 (2008: RMB211,000) and share premium of RMB6,691,000 (2008: RMB28,008,000) (before issue expenses).

41. DEEMED DISPOSAL OF A SUBSIDIARY

On 30 April 2009, Inner Mongolia Mengniu Fanyu Biotechnology Co., Ltd. (hereafter "Fanyu"), an indirectly owned subsidiary of the Company, issued additional shares of RMB40,000,000 to its existing and new shareholders, included in which was RMB5,200,000 in cash injected by Mengniu. The transaction resulted in the dilution of Mengniu's interest in Fanyu from 65% to 30%. As a consequence, Fanyu became an associate of the Company since then.

	2009 RMB'000	2008 RMB'000
Net assets disposal of:		
Property, plant and equipment	10,673	–
Cash and bank balances	1,088	–
Trade receivables	9,448	–
Prepayments and other receivables	2,689	–
Inventories	5,461	–
Other intangible assets	7,773	–
Trade payables	(208)	–
Accruals and other payables	(13,829)	–
Non-controlling interests	(8,083)	–
	15,012	–
Cash consideration paid	5,200	–
Initial recognition of an associate	(19,139)	–
Loss on deemed disposal of a subsidiary	1,073	–

An analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary is as follows:

	2009 RMB'000	2008 RMB'000
Cash consideration paid	5,200	–
Cash and bank balances disposed of	1,088	–
Net cash flows used in respect of deemed disposal of a subsidiary	6,288	–

42. COMMITMENTS

(a) Capital commitments

The Group had the following outstanding capital commitments in respect of the purchase and construction of property, plant and equipment as at the end of reporting period:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Contracted, but not provided for	**204,510**	100,059

Subsequent to the reporting date, the board of directors approved the capital expenditure (not contracted for) amounting to approximately RMB1,968,250,000 (2008: RMB875,750,000).

(b) Operating lease commitments

At the end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases in respect of buildings and certain production equipment as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within one year	**19,952**	19,225
In the second to fifth years, inclusive	**64,856**	49,381
Over five years	**15,697**	24,798
	100,505	93,404

The Company did not have any significant commitments at the end of reporting period.

43. CONTINGENT LIABILITIES

The Group is contingently liable in respect of loan guarantees granted to certain banks in favour of certain suppliers of raw milk (the "Suppliers"). The amount of guarantees granted as at 31 December 2009 was approximately RMB29,214,000 (2008: RMB73,820,000). All of the above guarantees are cross-guaranteed and secured by assets owned by these suppliers who are independent third parties. Securities under these counter-guarantees included property, dairy cattle and other assets owned by the Suppliers.

Save as the above and the disclosure in note 45(i), the Group did not have any significant contingent liabilities at the end of reporting period.

The Company did not have any significant contingent liabilities at the end of reporting period.

44. FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial assets and liabilities (which are classified as current assets and liabilities) approximated to their fair values at 31 December 2009 because of the short maturity of these instruments.

The carrying amounts of the Group's long term interest-bearing borrowings approximated to their fair values based on borrowing rates currently charged for loans with similar terms and maturities.

The carrying amounts of the Group's long term payables approximated to their fair values based on the implicit interest rates currently used to arrive at the cash price for purchase on normal credit terms.

45. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances which are disclosed elsewhere in these financial statements, the Group had the following significant transactions with its associates, a jointly controlled entity and other related parties.

			Group	
			2009	2008
		Notes	***RMB'000***	*RMB'000*
(a)	Sales of liquid milk products to associates	*(i)*	**4,045,738**	3,627,586
(b)	Sales of ice cream products to associates	*(i)*	**519,337**	337,975
(c)	Sales of other dairy products to associates	*(i)*	**10,951**	10,890
(d)	Purchase of raw materials from an associate	*(i)*	**–**	(108,232)
(e)	Sales of raw materials to a jointly controlled entity	*(ii)*	**46,345**	69,720
(f)	Purchase of other dairy products from a jointly controlled entity	*(i)*	**(19)**	(6,830)
(g)	Purchase of ice cream products from an associate	*(i)*	**(67,423)**	(65,593)
(h)	Sales of property, plant and equipment to a jointly controlled entity		**579**	–
(i)	Provision of guarantees to a jointly controlled entity		**1,385**	2,073

Notes:

(i) The considerations were determined with reference to the then prevailing market prices/rates and the prices charged to third parties.

(ii) Such transaction was conducted at cost, which approximated to the prevailing market price of the materials.

(iii) The above transactions did not constitute connected transactions as defined in the Listing Rules.

(iv) Key management compensation is detailed in note 7 to the financial statements.

46. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows:

Financial assets

	Group					
	2009			2008		
	Loans and receivables financial	**Available-for-sale financial assets RMB'000**	**Total RMB'000**	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	**–**	**17,409**	**17,409**	–	18,029	18,029
Bills receivable	**52,449**	**–**	**52,449**	64,778	–	64,778
Trade receivables	**527,303**	**–**	**527,303**	284,079	–	284,079
Other receivables	**66,202**	**–**	**66,202**	90,679	–	90,679
Other financial assets	**20,868**	**–**	**20,868**	18,333	–	18,333
Pledged deposits	**230,968**	**–**	**230,968**	41,693	–	41,693
Cash and bank balances	**6,150,021**	**–**	**6,150,021**	3,041,965	–	3,041,965
	7,047,811	**17,409**	**7,065,220**	3,541,527	18,029	3,559,556

Financial liabilities

	Group	
	2009	2008
	Financial liabilities at amortised cost RMB'000	Financial liabilities at amortised cost RMB'000
Trade payables	**1,531,366**	2,155,265
Bills payable	**808,409**	239,345
Other payables	**1,211,172**	1,048,792
Interest-bearing bank loans	**323,593**	1,728,660
Other loans	**106,947**	72,942
Long term payables	**49,879**	107,988
	4,031,366	5,352,992

46. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows:

Financial assets

	Company	
	2009	2008
	Loans and receivables	Loans and receivables
	RMB'000	*RMB'000*
Loan to a subsidiary included in interests in subsidiaries (*note 18)*	**804,847**	806,136
Financial assets included in prepayments, deposits and other receivables	**1,437,024**	955,284
Cash and cash equivalents	**2,354,922**	54,058
	4,596,793	1,815,478

Financial liabilities

	Company	
	2009	2008
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	RMB'000	*RMB'000*
Financial liabilities included in accruals and other payables	**2,516**	2,914

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. The Group's policy is to maintain the gearing ratio between 20% and 50% normally. Net debt includes interest-bearing bank loans and other loans, trade, bills and other payables, accruals and customers' deposits, long term payables, less cash and bank balances, and excludes discontinued operations. Capital represents equity attributable to owners of the Company. The gearing ratios as at the ends of reporting periods were as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Interest-bearing bank loans	**673,593**	1,728,660
Trade and bills payables	**2,339,775**	2,394,610
Accruals and customer's deposits	**559,291**	745,535
Other payables	**1,211,172**	1,048,792
Other loans	**106,947**	72,942
Long term payables	**49,879**	107,988
Less: Cash and bank balances	**(6,150,021)**	(3,041,965)
Net debt/(cash)	**(1,209,364)**	3,056,562
Equity attributable to owners of the Company	**8,575,678**	4,464,616
Capital and net debt	**7,366,314**	7,521,178
Gearing ratio	**N/A**	41%

Financial risk management

The Group's principal financial instruments comprise cash and cash equivalents, trade receivables and payables, other receivables and payables, balances with related parties, interest-bearing bank loans, other loans and long term payables.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Financial risk management *(continued)*

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors and senior management meet periodically to analyse and formulate measures to manage the Group's exposure to those risks. Generally, the Group adopts reasonably prudent strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

(i) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's borrowings with floating interest rates. The Group closely monitors its interest rate risk by performing periodic reviews and evaluations of its debt portfolio and gearing ratio. The interest rates and terms of repayment of the bank loans of the Group are disclosed in note 33 to the financial statements. In the opinion of the directors, the Group has no significant interest rate risk and has not used any interest rate swaps to hedge its exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings):

	Group	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax *RMB'000*
2009		
RMB	**50**	**(2,418)**
RMB	**(50)**	**2,418**
United States Dollar	**50**	**(183)**
United States Dollar	**(50)**	**183**
2008		
RMB	50	(1,150)
RMB	(50)	1,150
United States Dollar	50	(53)
United States Dollar	(50)	53

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Financial risk management *(continued)*

(ii) Foreign currency risk

The Group's businesses are principally located in Mainland China and substantially all transactions are conducted in RMB, except for the purchases of imported machinery and equipment and sales of dairy products to Hong Kong and Macau. As at 31 December 2009, substantially all of the Group's assets and liabilities were denominated in RMB except the cash and cash equivalents of approximately RMB72,165,000 (2008: RMB31,791,000), RMB2,682,036,000 (2008: RMB56,146,000) and RMB nil (2008: 4,257,000) which were denominated in United States dollars, Hong Kong dollars and Euro, respectively, and the interest-bearing bank loans of approximately RMB132,931,000 (2008: RMB33,660,000) and long term payables of approximately RMB128,574,000 (2008: RMB249,014,000) which were denominated in United States dollars. The fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations. However, in the opinion of the directors, the foreign currency risk exposure is under management's control.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB exchange rate as compared to United States dollars and Hong Kong dollars with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and equity:

	Increase/ (decrease) in RMB rate *%*	Increase/ (decrease) in profit before tax *RMB'000*	Increase/ (decrease) in equity *RMB'000*
2009	**5**	**21,244**	**(140,825)**
	(5)	**(21,244)**	**140,825**
2008	5	53,715	(70,113)
	(5)	(53,715)	70,113

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Financial risk management *(continued)*

(iii) Credit risk

The cash and bank balances, as well as the pledged deposits, of the Group are mainly deposited with state-owned commercial banks in Mainland China.

The majority of the Group's sales are conducted on a cash basis. The Group has implemented policies to ensure that sales of products are made to distributors, who wish to trade on credit terms, with an appropriate credit history which is subject to periodic reviews. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these assets.

In addition, the Group's guarantees of the bank loans borrowed by certain suppliers of raw milk amounting to RMB29,214,000 (2008: RMB73,820,000) (note 43) represent the Group's other exposure to credit risk. RMB29,214,000 (2008: RMB73,820,000) of the above guarantees are cross-guaranteed and secured by assets owned by these suppliers.

Except for the above, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 26 to the financial statements.

(iv) Liquidity risk

The Group closely monitors its liquidity risk by performing periodic reviews and evaluations of its liquidity with regard to the industry characteristics, market conditions, business strategies and changes in the Group's state of affairs and adjusting the current and non-current portions of the Group's debt portfolio on a proper and timely basis. In addition, the Group aims to ensure a continuity of fund and flexibility through the use of various means of financing and by keeping committed credit lines available.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Financial risk management *(continued)*

(iv) Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 based on contractual undiscounted payments.

	2009				
	On demand	Less than 1 year	1 to 5 years	More than 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank loans	–	323,593	381,680	–	705,273
Other loans	106,947	–	–	–	106,947
Trade and bill payables	–	2,339,775	–	–	2,339,775
Other payables, excluding current potion of long term payables	–	1,127,935	–	–	1,127,935
Long term payables	–	88,766	53,119	–	141,885
Loan guarantees given to banks	–	22,022	7,192	–	29,214

	2008				
	On demand	Less than 1 year	1 to 5 years	More than 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing bank loans	–	1,208,660	588,211	–	1,796,871
Other loans	72,942	–	–	–	72,942
Trade and bill payables	–	2,394,610	–	–	2,394,610
Other payables, excluding current potion of long term payables	–	879,997	–	–	879,997
Long term payables	–	173,797	113,160	3,185	290,142
Loan guarantees given to banks	–	34,745	39,075	–	73,820

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 April 2010.

Financial Summary

The following is a summary of the audited financial statements of China Mengniu Dairy Company Limited (the "Company") and its subsidiaries for the respective years.

RESULTS

	Year ended				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**25,710,460**	23,864,975	21,318,062	16,246,368	10,824,950
Profit/(loss) before tax	**1,346,346**	(1,089,275)	1,130,310	942,320	617,135
Income tax income/(expense)	**(126,240)**	161,454	(21,658)	(76,032)	(61,612)
Profit/(loss) for the year from continuing operations	**1,220,106**	(927,821)	1,108,652	866,288	555,523
Profit for the year from a discontinued operation	**–**	3,357	–	–	–
Profit/(loss) for the year	**1,220,106**	(924,464)	1,108,652	866,288	555,523
Attributable to:					
Owners of the Company	**1,115,799**	(948,600)	935,786	727,352	456,847
Non-controlling/minority interests	**104,307**	24,136	172,866	138,936	98,676
Proposed dividend	**245,465**	–	187,535	149,718	93,873
Earnings per share attributable to ordinary owners of the Company *(RMB) (note (i))*					
For profit/(loss) for the year					
– Basic	**0.681**	(0.639)	0.664	0.532	0.365
– Diluted	**N/A**	N/A	0.664	0.532	0.334

ASSETS, LIABILITIES AND EQUITY

	At 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**14,096,126**	11,315,275	9,681,279	7,763,678	6,087,105
Total liabilities	**5,184,432**	6,577,304	3,846,575	4,130,998	3,320,026
Equity attributable to owners of the Company	**8,575,678**	4,464,616	5,111,629	2,998,864	2,330,621
Non-controlling/minority interests	**336,016**	273,355	723,075	633,816	436,458

Note:

(i) Calculation basis for the earnings per share attributable to ordinary owners of the Company is set out in note 12 to the consolidated financial statements.

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