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CHINA MENGNIU DAIRY COMPANY LIMITED

中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

HIGHLIGHTS:

	2011 RMB'000	2010 RMB'000
For the year ended 31 December		
Revenue	37,387,844	30,265,415
Gross profit	9,592,152	7,786,436
Profit attributable to owners of the Company	1,589,274	1,237,273
Net cash inflow from operating activities	2,520,057	2,485,117
Earnings per share (RMB)		
– Basic	0.908	0.712
– Diluted	0.905	0.711

- Capitalising on the opportunities presented by the orderly development of the industry, the Group continuously optimised its product portfolio and launched more high-end and innovative new products, thereby enabling it to consolidate its leading position in the market. The revenue of the Group increased by 23.5% to RMB37,387.8 million while the profit attributable to owners of the Company rose by 28.4% to RMB1,589.3 million during the year.
- The strategy of “selling to where it is produced and producing at where it is sold” (產地銷、銷地產) was deployed throughout the country and the aggregate annual production capacity of the Group reached 7.05 million tons as of December 2011.
- Mengniu proposed the theme of “One Step Closer to Green Life”(走近綠生活) for the year and exerted its best efforts to promote a green economy as well as organise eco-activity campaigns. During the year, Mengniu was honoured with the Best Environmental Sustainability Initiative (最佳環境可持續發展獎) by the International Dairy Federation.
- Since the acquisition of Junlebao, both parties have achieved synergies by sharing resources in the procurement of raw milk and sales channels, thereby improving the sales of products as well as branding for both parties.
- Mengniu established an overseas sales centre to tap into the international market. Furthermore, the Group’s products were launched again in Hong Kong and Macau, the first important step in entering the international market.

* For identification purposes only

The board (the “Board”) of directors (the “Directors”) of China Mengniu Dairy Company Limited (the “Company”) is pleased to present the results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2011, together with the comparative amounts.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	<i>Notes</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
REVENUE	3	37,387,844	30,265,415
Cost of sales		<u>(27,795,692)</u>	<u>(22,478,979)</u>
GROSS PROFIT		9,592,152	7,786,436
Other income and gains		296,265	193,472
Selling and distribution costs		(6,694,705)	(5,429,141)
Administrative expenses		(1,110,089)	(1,036,039)
Other operating expenses	4	<u>(187,162)</u>	<u>(59,745)</u>
PROFIT FROM OPERATING ACTIVITIES		1,896,461	1,454,983
Interest income		173,052	87,884
Finance costs	6	(60,942)	(45,203)
Share of profits and losses of associates		<u>52,059</u>	<u>40,438</u>
PROFIT BEFORE TAX	5	2,060,630	1,538,102
Income tax expense	7	<u>(276,081)</u>	<u>(182,185)</u>
PROFIT FOR THE YEAR		<u>1,784,549</u>	<u>1,355,917</u>
Attributable to:			
Owners of the Company		1,589,274	1,237,273
Non-controlling interests		<u>195,275</u>	<u>118,644</u>
		<u>1,784,549</u>	<u>1,355,917</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (EXPRESSED IN RMB PER SHARE)	9		
– Basic		0.908	0.712
– Diluted		<u>0.905</u>	<u>0.711</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	<i>Notes</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		6,806,539	5,380,385
Construction in progress		887,103	535,104
Land use rights		585,007	484,572
Long term prepayments		243,942	–
Goodwill		482,436	451,613
Other intangible assets		224,887	221,508
Investments in associates		153,352	113,857
Available-for-sale investments		295,206	301,681
Deferred tax assets		66,749	81,060
Other financial assets		69,961	71,754
		9,815,182	7,641,534
CURRENT ASSETS			
Inventories		1,685,247	1,176,423
Bills receivable	<i>10</i>	261,024	20,539
Trade receivables	<i>11</i>	574,734	554,933
Prepayments and deposits		774,907	942,303
Other receivables		289,427	169,897
Investment deposits		102,800	–
Pledged deposits		175,289	102,399
Cash and bank balances		6,523,075	6,697,813
		10,386,503	9,664,307
CURRENT LIABILITIES			
Trade payables	<i>12</i>	2,543,405	2,061,193
Bills payable	<i>13</i>	1,141,141	1,487,302
Deferred income		18,912	15,082
Other payables		1,581,781	1,061,253
Accruals and customers' deposits		1,180,720	880,142
Interest-bearing bank loans		537,544	550,786
Other loans		119,094	140,018
Income tax payable		103,228	42,513
		7,225,825	6,238,289
NET CURRENT ASSETS		3,160,678	3,426,018
TOTAL ASSETS LESS CURRENT LIABILITIES		12,975,860	11,067,552

	<i>Notes</i>	2011 RMB'000	2010 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		–	150,000
Long term payables		188,739	14,102
Deferred income		234,940	226,049
Deferred tax liabilities		22,830	39,865
Other financial liabilities		480,531	420,027
		<u>927,040</u>	<u>850,043</u>
NET ASSETS		<u>12,048,820</u>	<u>10,217,509</u>
EQUITY			
Equity attributable to owners of the Company			
Issued capital		181,087	178,679
Retained earnings		3,074,337	2,050,216
Other reserves		8,215,634	7,529,169
		<u>11,471,058</u>	<u>9,758,064</u>
Non-controlling interests		577,762	459,445
TOTAL EQUITY		<u>12,048,820</u>	<u>10,217,509</u>

NOTES:

1. CORPORATE INFORMATION

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared on a historical cost basis except for share options, certain available-for-sale equity investments and derivative financial instruments 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 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The result of subsidiaries are 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. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

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 Amendment	Amendment to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i>
IAS 24 (Revised)	<i>Related Party Disclosures</i>
IAS 32 Amendment	Amendment to IAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
IFRIC-Int 14 Amendments	Amendments to IFRIC-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
IFRIC-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
<i>Improvements to IFRSs 2010</i>	Amendments to a number of IFRSs issued in May 2010

2.2 IMPACT OF NEW AND REVISED IFRSs (continued)

Other than as further explained below regarding the impact of IAS 24 (Revised), and amendments to IFRS 3, IAS 1 and IAS 27 included in *Improvements to IFRSs 2010*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IAS 24 (Revised) *Related Party Disclosures*

IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) *Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- IFRS 3 *Business Combinations*: The amendment clarifies that the amendments to IFRS 7, IAS 32 and IAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

In addition, the amendments limit the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.
- IAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if IAS 27 is applied earlier.

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 Amendments	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> ¹
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i> ¹
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> ⁴
IFRS 9	<i>Financial Instruments</i> ⁶
IFRS 10	<i>Consolidated Financial Statements</i> ⁴
IFRS 11	<i>Joint Arrangements</i> ⁴
IFRS 12	<i>Disclosure of Interests in Other Entities</i> ⁴
IFRS 13	<i>Fair Value Measurement</i> ⁴
IAS 1 Amendments	<i>Presentation of Financial Statements – Presentation of Items of other Comprehensive Income</i> ³
IAS 12 Amendments	Amendments to IAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i> ²
IAS 19 (2011)	<i>Employee Benefits</i> ⁴
IAS 27 (2011)	<i>Separate Financial Statements</i> ⁴
IAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> ⁴
IAS 32 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> ⁵
IFRIC-Int 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i> ⁴

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2012

³ Effective for annual periods beginning on or after 1 July 2012

⁴ Effective for annual periods beginning on or after 1 January 2013

⁵ Effective for annual periods beginning on or after 1 January 2014

⁶ Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of determining whether these new and revised standards and interpretations will have any material impact on the Group's results of operations and financial position.

3. REVENUE AND OPERATING SEGMENT INFORMATION

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

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

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

3. REVENUE AND OPERATING SEGMENT INFORMATION *(continued)*

Segment assets exclude equity investments 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.

Year ended 31 December 2011

	Liquid milk products <i>RMB'000</i>	Ice cream products <i>RMB'000</i>	Other dairy products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:				
Sales to external customers	33,701,215	3,258,602	428,027	37,387,844
Intersegment sales	185,099	17,057	89,761	291,917
	<u>33,886,314</u>	<u>3,275,659</u>	<u>517,788</u>	<u>37,679,761</u>
Reconciliation:				
Elimination of intersegment sales				<u>(291,917)</u>
Revenue				<u>37,387,844</u>
Segment results	2,026,108	31,181	(21,188)	2,036,101
Reconciliation:				
Interest income				173,052
Finance costs				(60,942)
Share of profits and losses of associates				52,059
Unallocated corporate expenses				<u>(139,640)</u>
Profit before tax				2,060,630
Income tax expense				<u>(276,081)</u>
Profit for the year				<u>1,784,549</u>
Segment assets	14,940,212	1,613,604	343,248	16,897,064
Reconciliation:				
Elimination of intersegment receivables				(4,756,443)
Unallocated corporate assets				<u>8,061,064</u>
Total assets				<u>20,201,685</u>
Segment liabilities	10,814,233	1,016,822	261,879	12,092,934
Reconciliation:				
Elimination of intersegment payables				(4,756,443)
Unallocated corporate liabilities				<u>816,374</u>
Total liabilities				<u>8,152,865</u>

3. REVENUE AND OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2011

	Liquid milk products <i>RMB'000</i>	Ice cream products <i>RMB'000</i>	Other dairy products <i>RMB'000</i>	Total <i>RMB'000</i>
Other segment information:				
Depreciation and amortisation	706,532	85,752	23,113	815,397
Unallocated amounts				<u>48,140</u>
Total depreciation and amortisation				<u>863,537</u>
Capital expenditure	2,393,609	230,444	7,260	2,631,313
Unallocated amounts				<u>64,951</u>
Total capital expenditure				<u>2,696,264*</u>
Impairment losses recognised in the consolidated income statement	1,868	12,596	31	14,495
Other non-cash expenses	66,420	6,357	652	73,429
Unallocated amounts				<u>100,112</u>
Total non-cash expenses				<u>188,036</u>

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

3. REVENUE AND OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2010

	Liquid milk products <i>RMB'000</i>	Ice cream products <i>RMB'000</i>	Other dairy products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:				
Sales to external customers	26,871,834	3,111,521	282,060	30,265,415
Intersegment sales	<u>75,917</u>	<u>736</u>	<u>250,196</u>	<u>326,849</u>
	26,947,751	3,112,257	532,256	30,592,264
Reconciliation:				
Elimination of intersegment sales				<u>(326,849)</u>
Revenue				<u>30,265,415</u>
Segment results	1,836,040	17,125	(25,181)	1,827,984
Reconciliation:				
Interest income				87,884
Finance costs				(45,203)
Share of profits and losses of associates				40,438
Unallocated corporate expenses				<u>(373,001)</u>
Profit before tax				1,538,102
Income tax expense				<u>(182,185)</u>
Profit for the year				<u>1,355,917</u>
Segment assets	11,499,448	1,387,524	372,228	13,259,200
Reconciliation:				
Elimination of intersegment receivables				(3,938,771)
Unallocated corporate assets				<u>7,985,412</u>
Total assets				<u>17,305,841</u>
Segment liabilities	8,995,050	848,956	275,372	10,119,378
Reconciliation:				
Elimination of intersegment payables				(3,938,771)
Unallocated corporate liabilities				<u>907,725</u>
Total liabilities				<u>7,088,332</u>

3. REVENUE AND OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2010

	Liquid milk products <i>RMB'000</i>	Ice cream products <i>RMB'000</i>	Other dairy products <i>RMB'000</i>	Total <i>RMB'000</i>
Other segment information:				
Depreciation and amortisation	569,016	83,855	22,727	675,598
Unallocated amounts				37,178
Total depreciation and amortisation				<u>712,776</u>
Capital expenditure	1,305,886	70,429	4,325	1,380,640
Unallocated amounts				45,423
Total capital expenditure				<u>1,426,063*</u>
Impairment losses recognised in the consolidated income statement	(889)	178	563	(148)
Other non-cash expenses	147,262	8,814	4,140	160,216
Unallocated amounts				205,967
Total non-cash expenses				<u>366,035</u>

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

Geographical information

a. Revenue from external customers

Over 90% of the revenue is contributed by customers in Mainland China.

b. Non-current assets

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

4. OTHER OPERATING EXPENSES

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Write-off of inventories	6,258	6,740
Write-down of inventories to net realisable value	1,522	865
Loss on disposal of items of property, plant and equipment	8,502	18,661
Donations	7,924	12,941
Provision/(write-back of provision) for trade receivables and other receivables	12,973	(1,013)
Educational surcharges and city construction tax	143,005	13,782
Others	6,978	7,769
	<u>187,162</u>	<u>59,745</u>

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Cost of inventories sold	27,788,961	22,478,979
Realised and unrealised fair value losses of derivative financial instruments, net	<u>6,731</u>	<u>–</u>
Cost of sales	<u>27,795,692</u>	<u>22,478,979</u>
Employee benefit expense (excluding directors' remuneration)		
– Wages, salaries, housing benefits and other allowances	1,471,455	1,172,323
– Retirement benefit contributions	137,049	93,941
– Share-based payment expense	<u>136,620</u>	<u>290,587</u>
	<u>1,745,124</u>	<u>1,556,851</u>
Depreciation of items of property, plant and equipment	839,264	697,996
Amortisation of land use rights	12,538	9,172
Amortisation of other intangible assets	11,735	5,608
Research and development costs – current year expenditure	54,787	37,111
Provision/(write-back of provision) for trade receivables and other receivables	12,973	(1,013)
Minimum lease payments under operating leases on buildings and certain production equipment	153,082	252,888
Display space leasing fees	593,090	495,076
Auditors' remuneration	<u>4,140</u>	<u>3,980</u>

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Interest on long term payables	9,846	6,339
Interest on bank loans wholly repayable within five years	46,540	38,303
Increase in discounted amounts of contingent consideration arising from the passage of time	<u>4,556</u>	<u>561</u>
	<u>60,942</u>	<u>45,203</u>

7. INCOME TAX 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 Law of the People’s Republic of China on Corporate Income Tax (“PRC CIT law”), except for certain preferential treatment available to sixteen (2010: 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% (2010: 25%) on the taxable income as reported in their statutory accounts which are prepared in accordance with the PRC accounting standards and financial regulations.

	2011	2010
	RMB’000	RMB’000
Current income tax		
Current income tax charge	260,330	130,551
Adjustments recognized in the year for current tax of prior years	1,440	953
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences	14,311	50,681
	276,081	182,185

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

	<i>Notes</i>	2011	2010
		RMB’000	RMB’000
Profit before tax		2,060,630	1,538,102
At CIT rate of 25% (2010: 25%)		515,157	384,525
Non-deductible items and others, net		17,352	55,376
Adjustment recognised in the year for current tax of prior years		1,440	953
Effect of preferential tax rates	<i>(a)</i>	(102,931)	(148,950)
Effect of tax exemptions	<i>(a)</i>	(132,691)	(68,368)
Tax losses not recognised		13,566	7,514
Utilisation of previously unrecognised tax credits		(35,812)	(48,865)
At the effective income tax rate of 13.4% (2010: 11.8%)		276,081	182,185

Notes:

- (a) Sixteen (2010: twenty-two) subsidiaries and a jointly-controlled entity were subject to tax concessions in 2011. The total taxable profits of the subsidiaries that are subject to tax concessions amounted to approximately RMB541,960,000 (2010: RMB804,315,000) in aggregate. Out of the sixteen subsidiaries, six (2010: fifteen) plus the jointly-controlled entity were granted tax concessions by the state tax bureau in accordance with the PRC CIT law and the corresponding transitional tax concession policy and “The notice of preferential tax policies for companies located in West China”. Thirteen (2010: ten) 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 RMB17,447,000 (2010: RMB9,948,000) is included in the share of profits and losses of associates on the face of the consolidated income statement.

8. DIVIDENDS

	<i>Notes</i>	2011 RMB'000	2010 <i>RMB'000</i>
<i>Declared and paid during the year</i>			
Equity dividends on ordinary shares		279,233	245,445
<i>Proposed for approval at the AGM</i>			
Equity dividends on ordinary shares:			
Proposed final – RMB0.198 (2010: RMB0.16) per ordinary share	<i>(a)/(b)</i>	349,953	278,078

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"). This dividend was not recognised as a liability in the consolidated financial statements as at 31 December 2011 but was reflected as an appropriation of retained earnings for the year ending 31 December 2012.
- b. The proposed final dividend for the year is appropriated from the undistributed profit earned before 1 January 2008.

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The basic earnings per share for the year is calculated by dividing the profit for the year attributable to ordinary equity holders 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 for the year attributable to ordinary equity holders 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 the contingent ordinary share provision in IAS 33 *Earnings per Share*.

A reconciliation of the weighted average number of shares used in calculating the basic and diluted earnings per share amount is as follows:

	2011 Number of shares '000	2010 Number of shares '000
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	1,750,820	1,737,398
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the year	5,728	3,443
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	1,756,548	1,740,841

10. 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:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Within 3 months	224,987	19,439
4 to 6 months	36,037	1,100
	261,024	20,539

11. TRADE RECEIVABLES

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

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice dated and net of provision, is as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Within 3 months	465,053	444,546
4 to 6 months	86,195	101,423
7 to 12 months	15,347	8,205
Over 1 year	8,139	759
	574,734	554,933

12. TRADE PAYABLES

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Within 3 months	2,350,904	1,994,978
4 to 6 months	177,669	51,315
7 to 12 months	12,114	13,909
Over 1 year	2,718	991
	2,543,405	2,061,193

13. BILLS PAYABLE

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Within 3 months	617,363	493,824
4 to 6 months	523,778	993,478
	<u>1,141,141</u>	<u>1,487,302</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Capitalising on the healthy and orderly development of the dairy market, the Group continuously optimised its product portfolio during the year under review. More high-end and innovative new products were launched, enabling the Group to consolidate its leading position in the market and to achieve greater success again. During the year under review, the revenue of the Group amounted to RMB37,387.8 million, as compared with RMB30,265.4 million in 2010, an increase of 23.5%. Profit attributable to owners of the Company was RMB1,589.3 million (2010: RMB1,237.3 million), an increase of 28.4% as compared with 2010. Basic earnings per share were RMB0.908 (2010: RMB0.712).

Gross Profit

The gross profit of the Group amounted to RMB9,592.2 million, as compared with RMB7,786.4 million in 2010, an increase of 23.2%. The prices of raw milk and other raw materials continued to increase as a result of growing inflation. The Group effectively mitigated the impact of inflationary pressure on costs by actively adopting measures such as stringent cost control and optimisation of product portfolio. As such, the overall gross profit margin was maintained at 25.7% (2010: 25.7%).

Operating Expenses

As a result of the expansion of its operational scale, the operating expenses of the Group in 2011 rose to RMB7,992 million (2010: RMB6,524.9 million). However, through measures to enhance operational efficiency and stringently controlled costs, its percentage to the Group's revenue decreased to 21.4% (2010: 21.6%).

The percentage of selling and distribution costs to the Group's revenue for the year was 17.9% (2010: 17.9%), similar to that of 2010. The Group maximized its utilization of sales and marketing resources, and introduced novel and diversified marketing and promotion activities targeted at different customer segments for a wide range of products, thereby enhancing the recognition and popularity of the *MENGNIU* brand to consumers. The percentage of advertising and promotion expenses to revenue for the year remained at 7.6% (2010: 7.8%).

The administrative and other operating expenses amounted to RMB1,297.3 million (2010: RMB1,095.8 million). With further internal restructuring and stringent cost control, the percentage of related expenses to the Group's revenue was effectively reduced to 3.5% (2010: 3.7%).

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

The Group's EBITDA for the year was RMB2,812.1 million (2010: RMB2,208.2 million). With effective cost control, the EBITDA margin increased to 7.5% (2010: 7.3%) as compared with last year. Profit attributable to the owners of the Company grew to RMB1,589.3 million (2010: RMB1,237.3 million). Net profit margin was 4.3% for the year (2010: 4.1%).

Capital Structure, Liquidity and Financial Resources

The Group's net cash inflow from operating activities amounted to RMB2,520.1 million (2010: RMB2,485.1 million). Net cash balances (cash and bank balances net of total bank loans) of the Group reached RMB5,985.5 million as at 31 December 2011 (31 December 2010: RMB5,997 million), indicating a strong financial position and considerably healthy cash flow of the Group.

The outstanding bank loans of the Group amounted to RMB537.5 million (31 December 2010: RMB700.8 million), which was repayable within one year (31 December 2010: RMB550.8 million). Furthermore, the bank loans totaling RMB167.1 million (31 December 2010: RMB270.8 million) were fixed interest-bearing loans.

The total equity of the Group was RMB12,048.8 million as at 31 December 2011 (31 December 2010: RMB10,217.5 million), and the debt-to-equity ratio (total bank loans over total equity) of the Group was 4.5% (31 December 2010: 6.9%).

The Group's finance costs amounted to RMB60.94 million (2010: RMB45.20 million), representing approximately 0.2% of the Group's revenue (2010: 0.1%).

Market Review

Under the Government's policies to promote "the preservation of domestic demand" and "fostering of consumption" (保內需、促消費), the dairy industry in China continued to develop in a sound and rapid manner. An important development was the re-examination by the State General Administration of Quality Supervision, Inspection and Quarantine ("SGAQSIQ") of production permits for the dairy enterprises which facilitated the rationalising and regulation of dairy enterprises. The competitive environment continued to improve amidst the further consolidation of the industry. In addition, the Government continued to enhance the safety monitoring and inspection over dairy products, thus bolstering consumer confidence and setting a course for the long-term and sound development of the dairy market.

As one of the leaders in the industry, Mengniu has been well positioned to capture the development opportunities presented by the orderly advance of the industry. Through the prominence of healthy products with high quality and its strategic planning in the market, the pace of expansion achieved by the Group ranked at the forefront of the industry. The statistics provided by Nielsen Company once again demonstrated that the market share of the Group's liquid milk and yogurt segments continued to rank top in China. The Group was also selected for the third consecutive year as one of the top 20 global dairy enterprises (全球乳業20強) ranked by Rabobank for the year 2011. According to the statistics of China Industrial Information Issuing Centre under National Bureau of Statistics in China, the dairy products of Mengniu ranked first in terms of sales volume and sales value in 2011 among similar products for the sixth consecutive year domestically.

Business Review

Despite the pressure brought about by the rising cost in farming, the increase in the prices of raw milk and other raw materials, Mengniu achieved remarkable results through a series of ongoing measures such as optimisation of product portfolio, organisational restructuring and enhancing operational efficiency, etc.

Mengniu aggressively implemented an excellent cost control system. Through stringent cost control measures, the Group has effectively saved costs and enhanced overall profitability in addition to improved management mechanisms. Furthermore, the synergies after the organisation restructuring have been gradually realised. The operation of the Group is developed by utilizing the unified information system, management practices and performance appraisals. At the same time, Mengniu has actively strengthened the employment qualification system for staff. The constant reform of our management structure has laid a solid foundation for maintaining our leading position in the industry.

Since Mengniu acquired Shijiazhuang Junlebao Dairy Co., Ltd. ("Junlebao") in 2010, both parties have achieved synergies by sharing resources in purchase of raw milk and sales channels. Each of Mengniu's and Junlebao's share in the yogurt market of China has risen, demonstrating the mutual benefits of the win-win cooperation. The successful integration also provided a viable role model for our future mergers and collaboration.

Furthermore, Mengniu also established an overseas sales centre in August to tap into the international market. Our products were launched again in Hong Kong and Macau, the first important step to enter the international market. In 2012, Mengniu plans to expand further into overseas markets such as Singapore and Mongolia, which will extend the influence of the *MENGNIU* brand in the international market.

Branding and Marketing

Mengniu has devoted efforts to become a responsible leader in the industry, a practitioner of sustainable green development and a pioneer of healthy lifestyle. On the basis of the brand theme of "High Quality for a Green Life" (好品質，綠生活), Mengniu proposed the theme of "One Step Closer to Green Life" (走近綠生活) for the year and used its best endeavours to promote a green economy.

With its pioneering awareness and actions in the areas of corporate development, enhancement of production and ecological practices, Mengniu was selected as one of the global partners for the International Horticultural Exposition (the “Expo”) in 2011. The Group participated in building its own ecology park at the Expo, and illustrated the mode of ecological development of the dairy industry to visitors from China and overseas. The Expo is one of the most influential green events in the world. Mengniu’s participation has not only highlighted the corporate image of green ecology, but also created favourable sales impact in the marketing aspect. The “Mengniu Eco-ranch Fund (蒙牛生態草原基金)” continued to participate in the “Ecological Movement Support China” (生態行動，助力中國), a large-scale eco-activity campaign which was organised for the second time jointly by the National Green Committee (全國綠化委員會), the State Forestry Administration (國家林業局) and the Chinese Ecological Economics Society (中國生態經濟學會). The event aimed to draw the attention of the public to a green ecology through a series of community activities featuring celebrities, so as to lighten the spark for green environment and to accomplish blossomy growth of ecosystem. Mengniu also joined the “Earth Hour” activity initiated by the World Wide Fund (“WWF”) as the first dairy enterprise in China participated in the event. At the same time, we also participated in an activity “Package Recycling – I Am Changing the World” (包裝回收，我為地球做一個改變) held at different retail outlets and within communities to increase the corporate social responsibility. Mengniu initiated the “Package Recycling” activities in a number of cities, namely Beijing, Shanghai, Guangzhou, Shenzhen and Chengdu, collecting approximately 600,000 pieces of Tetra Pak packaging in total, and guided the public to make joint efforts to the creation of an environmentally friendly dairy industry. The Group devoted substantial efforts to launch a green interactive platform, “Mengniu Green Life Arena” (蒙牛綠生活館), which has strong interaction and a high degree of participation. The platform is a brand new accomplishment for the green community activities of Mengniu, instantly conveying its branding theme of “High Quality for a Green Life” (好品質，綠生活) to consumers through instant communication with them. In 2011, Mengniu was awarded for the Best Environmental Sustainability Initiative (最佳環境可持續發展獎) by the International Dairy Federation, which recognised our Group’s contribution to ecological sustainability.

Mengniu continued to make contribution to the society by organizing the “Love Gifts Action” (愛心禮物行動) campaign. During the year, internet was used as the major platform in collaboration with a number of reputable portals to create an integrated information platform aimed at offering long-term material support and psychiatric counseling to children in remote and poor regions, as well as orphans and the disabled, along with working class’s children. The campaign drew public attention to the underprivileged children groups and also demonstrated Mengniu’s commitment to corporate social responsibility.

In addition to Mengniu’s initiatives to build a green, caring, charitable and leading brand image, it also embarked on a number of large-scale innovative marketing activities. Furthermore, Mengniu also enhanced the reputation of its brand by sponsoring singing talent programmes such as “Heavenly Voice on Campus” (天驕之聲，唱響校園) and “Blossoming Flowers” (花兒朵朵), as well as major sports activities such as the “Tour of China Road Cycling Race 2011” (2011年環中國國際公路自行車賽).

The brand value of Mengniu was further boosted through a series of promotional activities during the year. Recognition and endorsements were obtained within and outside China. Important awards received in 2011 included:

- Ranking as the 18th Chinese Brand under the “BrandZ™ Top 50 Most Valuable Chinese Brands 2012” (BrandZ™2012最具價值中國品牌50強)
- Best Environmental Sustainability Initiative (最佳環境可持續發展獎) and IDF Dairy Innovation Award (IDF乳品創新獎) awarded by International Dairy Federation (世界乳業峰會)
- Inclusion in Hurun Brand List (胡潤品牌榜) 2011
- Outstanding Brand Award 2010–2011 (2010–2011年度傑出品牌大獎) to Mengniu at the Third Conference of Branding and Communication in China (第三屆中國品牌與傳播大會)

In addition, Mengniu was the Gold Sponsor of the Boao Forum for Asia 2011(博鰲亞洲論壇2011) due to the superb quality of its products and was the only dairy product sponsor of the event for the fifth year. We were also a cooperation partner for the Lunar Exploration Program (探月工程) and were honoured as the only designated dairy product for the Lunar Exploration Program (中國航天選用產品) for a number of consecutive years. Moreover, the Mongolian Olympic Committee (蒙古國奧林匹克委員會) and Mengniu entered into a cooperation agreement, designating Mengniu products as the Official Milk Products for Mongolian Athletes at the London 2012 Olympic Games (2012年倫敦奧運會蒙古國運動員指定牛奶). This follows Mengniu’s selection as the official milk products for Mongolian athletes for the Beijing 2008 Olympic Games.

Products

Mengniu strives to fulfil the increasingly diversified health needs of consumers in China by emphasising the research and development of high-end products, enriching the product portfolio and improving the functions of its products. Thus the Group has been well received in the market. By successfully building sub brands for different categories of products, and organising unique marketing and selling activities to widely promote the brand, the Group has enhanced its reputation and boosted growth in sales. To date, Mengniu has an unmatched portfolio of more than 400 types of quality dairy products that can fully satisfy the daily needs of consumers. Continuous innovation has boosted the development of Mengniu and consolidated its leading position in the market.

Liquid milk

Revenue from the liquid milk segment amounted to RMB33,701.2 million, an increase of 25.4% as compared with RMB26,871.8 million in 2010, accounting for 90.1% (2010: 88.8%) of the revenue of the Group. Liquid milk remained the most important source of the Group’s revenue.

UHT milk

Revenue from UHT milk products grew by 24.1% to RMB20,837.6 million (2010: RMB16,790.4 million), accounting for 61.8% (2010: 62.5%) of the liquid milk segment's revenue.

Regarded as the flagship product of the high-end milk line, the premium quality and high-end image of the *Milk Deluxe* (特倫蘇) series has gained widespread recognition within the market. During the year, the paramount position of *Milk Deluxe* (特倫蘇) was advanced by continually integrating elegant musical and cultural sales activities to increase the appeal of the brand. Furthermore, the Milk Deluxe Club (特倫蘇名仕會) provided the loyal consumer groups of *Milk Deluxe* (特倫蘇) with opportunities to participate in various celebrity activities, consolidating the loyalty in the brand and established a firm consumption base. Mengniu has always closely observed the needs of consumers. During the year, the market demand has spurred the upgrade and modification for the *Future Star Milk* (未來星兒童成長牛奶). An enhanced nutrition formula that would facilitate growth and is easily digestible by children was researched and developed with reference to the different characteristics of children's bodies. The functions of this series of milk products can be discerned from their categorisation into *Wisdom* (智慧型), *Strong Build* (健骨型) and *Digestive System Friendly* (呵護腸胃型). The *XinYangDao* (新養道) series targeting the mid-range to high-end dairy product market segment occupied a leading market position through product differentiation. *XinYangDao Zhenyang Milk* (新養道珍養牛奶), which blended the rich flavoured oriental recipe nourishing beauty and health, was nominated the IDF Dairy Innovation Award (IDF乳品創新獎) for the second time in representation of China. Winning this award, which is one of the world's most honoured accolade in the dairy industry, represents Mengniu's remarkable success. Two other products, *XinYangDao Qinyan Milk* (新養道沁妍牛奶) with collagen protein and *XinYangDao Low Lactose Low Fat Milk* (新養道低乳糖低脂牛奶), have been specifically created for the personalized needs of modern urban residents. The *Modern Ranch Pure Milk* (現代牧場純牛奶) series, a type of high quality UHT milk, was launched during the year. Its milk sources were derived from top ranking ranches with standardized management. The nutritional value of the milk is preserved with advanced technology which is a perfect union of science and nature.

Milk beverages

Revenue from the milk beverages segment was RMB8,309.6 million (2010: RMB7,336.2 million), increased by 13.3% from last year and accounting for 24.7% (2010: 27.3%) of the liquid milk segment revenue.

The sales of *Fruit Milk Drink* (真果粒) with chewable fruit grain remained high. This product not only earned three global independent intellectual property patents, but also was honoured with the China Patent Excellence Award (「中國專利獎優秀獎」) at the 12th China Patent Awards Conference (第十二屆中國專利獎頒獎大會) for the first time. Thus, the innovative character of this product has been widely recognized. *Youyi C* (優益C), a probiotic lactobacillus casein yogurt beverage containing casein, is effective in promoting gastrointestinal motility, aiding digestion and eliminating toxins from the body. This product can satisfy the consumers that are concerned about the health of their intestines. *Yiyou Te* (益優特), a milk beverage product of Mengniu, contains the essence of milk extracted with the state-of-the-art technology. Launched into the market in 2011, it was named as an “Innovative Product” (“創新產品”) at the 12th China International Food and Beverage Exhibition 2011 organised by SIAL CHINA, initiating a new chapter in the history of the Group as a professional dairy products manufacturer to enter the milk beverages market with products of plastic packaging.

Yogurt

Revenue from the yogurt segment increased by 65.9% to RMB4,554 million (2010: RMB2,745.2 million), accounting for 13.5% (2010: 10.2%) of the liquid milk segment revenue.

Inner Mongolia Old Yogurt (內蒙古老酸奶) has inherited the craftsmanship of the Mongolian nomad tradition. It is made from premium whole fresh milk free from any artificial flavor, preservatives and chemical additives. This natural and green product has become very popular in China. Based on this product, Mengniu advanced one step to create the *European Double Layer Fruit Yogurt* (歐式雙層果酪), a solid yogurt product fermented from selected ranch milk and added fresh fruits in a single cup. The thick texture of yogurt and the sweet taste of fruit is a perfect combination with great taste. With wide market acceptance, its sales have surged rapidly since its launch. *Champion* (冠益乳), a high-end dual function yogurt, is the Group’s first yogurt product to obtain national certification as a health-care product. Champion is rich in BB-12 Bifidobacterium, which can effectively regulate enzymes in the intestine, thereby enhancing the immune system. It is a healthy choice for the modern urban population with sales performance ranking at top of the market. The acquisition of Junlebao as a yogurt sub-brand of Mengniu has enlarged its product portfolio and further enhanced the Group’s share in the yogurt market.

Ice cream

Revenue of the ice cream segment amounted to RMB3,258.6 million (2010: RMB3,111.5 million), up 4.7% from last year, accounting for 8.7% (2010: 10.3%) of the Group’s revenue.

During the year, the Group conducted a major restructuring of its ice cream products, elevating the position of these products to a higher tier, thereby enhancing profitability. Focusing on its three major brands, namely, *Sui Bian* (隨變), *Ice+*(冰+) and the *Mood for Green* (綠色心情), Mengniu had launched high end products that became popular in the market. The Group also introduced the *Deluxe* (蒂蘭聖雪) series, the high-end brand of its ice cream products, which combines natural flavour and premium milk sources to form a delicious texture, thus gaining a favourable reputation in the market. This new brand swiftly established its position in the ice

cream market. In terms of marketing activities for ice cream products, Mengniu organised the “Once More Piece” (再來一支) event for *Sui Bian* (隨變), which adopted bold and avant-garde means to interpret the vision of “All Things Changing Upon Me” (一切隨我而變) to boost brand recognition. Mengniu’s ice cream products were also selected as the exclusive dairy products of the International Horticultural Exposition 2011 held in Xi’an, which has helped to present the high-end brand image of *MENGNIU*’s high end products to its consumers.

Other dairy products

Revenue from other dairy products amounted to RMB428 million (2010: RMB282.1 million), increased by 51.8%, accounting for 1.2% (2010: 0.9%) of the revenue of the Group.

MENGNIU ARLA (歐世蒙牛) debuted with a novel image tailored to the current situation of the milk powder market in China. The promotion of *MENGNIU ARLA* (歐世蒙牛) emphasized the application of premium milk sources imported from Europe in a formula customised for Chinese babies, highlighting the concept of a “Scandinavian Mind with a Chinese Heart” (北歐智慧中國心). This product appealed to the consumers by creating a new elite and elegant image. Moreover, the marketing strategies of *MENGNIU ARLA* (歐世蒙牛) were tailored to selected major cities for greater penetration. Professional training was provided to sales staff to ensure the product information is accurately delivered and follow-up activities were conducted to customers for better after-sales services. The hard work was paid off with *MENGNIU ARLA* (歐世蒙牛) earning two major international awards during the year. *Platinum Jiazhi Infant and Baby Formula Milk Powder* (白金佳智嬰幼兒配方奶粉) was named an “Innovative Product” (創新產品) in the 12th China International Food and Beverage Exhibition 2011 organised by SIAL CHINA and garnered the “*Innovative Formula Prize*” (配方創新獎) at the 5th China (Inner Mongolia) International Dairy Expo (第五屆中國(內蒙古)國際乳業博覽會). The quality of this product line has been increasingly recognized by the public. After implementing a series of improvement measures, the overall sales of *MENGNIU ARLA* (歐世蒙牛) have gradually increased. This fine-tuning of the marketing strategies has set the right direction for the future development of *MENGNIU ARLA* (歐世蒙牛) in China’s rapidly growing milk powder market.

Quality Control

Mengniu continued to constantly upgrade both the management and technologies of quality control during the year. In accordance with the requirements of SGAQSIQ for re-examination of production permits to dairy product enterprises in China, all operational departments and sub-offices or processing plants of the Group had passed the inspection in a timely manner. The Group also deployed strategies to improve its “end-to-end” (「端到端」) comprehensive quality control system throughout the production process. Such measures included tightening the evaluation and management of raw materials suppliers, establishing a patrol division and conducting sample checks of products with different attributes, enhancing quality assurance technologies and preparing for the expansion of its electronic tracking system (「電子追溯系統」) as the secondary tracking system. In terms of certifications for quality control, Mengniu obtained the compliance certificate for FSSC22000 recognised in the international market, and was cleared for the certification by HACCP for the prevention of hazardous substances in food production.

Enhancement of Milk Sources

To enhance the quality of milk sources at its supply sources, increasing the proportion of milk sources provided by ranches and scaled farms to the Group's milk sources has always been one of the focuses of Mengniu. The Group continued to provide assistance to the construction of milk sources bases by providing entrusted loans, prepaying for raw milk, investing in large scale ranches and construction of modernised ranch facilities for its suppliers. With the expansion in the scale of farming of suppliers, the proportion of milk sourced from the intensive production model accounted for nearly 80%, a leading rank within the industry. Mengniu also provided comprehensive technical service support to the suppliers, including recruiting technical staff or experts to offer technical training and consultation related to vaccination of dairy cattle and scientific nutrition. At the same time, we further controlled and managed segments such as feed and veterinary drugs safety. Modernised farming methods were also promoted in order to ensure excellent and reliable milk sources from upstream suppliers.

R&D Achievements

Mengniu continued to pursue innovation and research. As at 31 December 2011, Mengniu has submitted 1,161 patent applications and obtained patents for 901 items on a cumulative basis, out of which 149 patents were applied for and 151 patents were obtained during the year.

In order to closely monitor the international trend of the technological development of dairy products, the operation of Mengniu's overseas R&D station in Tokyo, Japan officially commenced during the year, allowing the Group to conduct surveys, analysis and experiments over the Japanese market, which would be beneficial to the cooperative research and application of raw materials, equipment and products. With the approval obtained from the Ministry of Human Resources and Social Security, Mengniu established the post-doctoral scientific research centre, and began research on related projects as planned, so as to bolster the strength in research and development. The Group further expanded its own lactic acid bacteria library, so as to enhance its research and development capability for growing good strains with its proprietary intellectual property rights. In collaboration with Harbin Institute of Technology, Mengniu conducted research in fermentation agents. One of the research achievements, which is the application of new streptococcus thermophiles in the industrial production of fermented milk and their effects in prebiotics, was endorsed by the professionals from the Chinese Institute of Food Science and Technology. These results were regarded as having achieved an international advanced standard, with major significance for the development of new fermented dairy products in China.

Production and Operations

In December 2011, the aggregate annual production capacity of the Group increased to 7.05 million tons (2010: 6.5 million tons). The strategy of "selling to where it is produced and producing at where it is sold"(產地銷、銷地產) was deployed throughout the country, through which production capabilities and sales can be matched.

The Group persistently improved the internal standards of production management. Scientific and standardised management in production operations was strengthened through the adoption of a monitoring system. Production efficiency was enhanced by ongoing introduction of automated production technologies and equipment. The Group also kicked off research and development projects with equipment suppliers on the production procedures, through which production capacities would be enhanced by custom-designed production equipment.

Meanwhile, the Group also underwent organisational restructuring. A platform for sharing and optimisation of resources was formed for the management of production and operation. Under a uniform management system, the operation system had rationalised the supply chain procedures. Logistics projects were implemented, enhancing efficiency whilst reducing costs through the close cooperation of different departments. At the same time, the implementation of operation cost reduction project and operational management excellence model (卓越運營管理模式) also contributed to cost efficiency.

Joint Ventures and Alliances

The Group continued to strengthen its collaboration with COFCO Corporation (“COFCO”). By leveraging on the vast platform provided by COFCO, the leading cereals, oils and foodstuff enterprise in China, the advantages of sharing resources between them enabled Mengniu to move forward. Mengniu has also established a preferential supply relationship with China Modern Dairy Holdings Ltd., which offers safe and reliable premium milk sources to the Group.

Human Resources

As at 31 December 2011, the Group had approximately 25,600 employees in Mainland China and Hong Kong. Total staff costs for the year, excluding the directors’ remuneration, were approximately RMB1,745.1 million (2010: RMB1,556.9 million).

The Group continued to implement the employment qualification system during the year on a trial basis. This exercise would provide the staff with a clear code of conduct for their respective positions as well as a clear understanding of the knowledge and skills necessary for performance of duties. By providing information regarding their career paths, the professionalism of staff would be systematically improved. At the same time, the Group raised the salary standards for front line staff if appropriate and further provided staff incentives via housing subsidies and spiritual encouragement, etc. Furthermore, the human resources centre of the Group also arranged employee orientation, pre-job training and on-the-job training so as to allow the employees to cope with the overall strategic planning and working requirements of the Group. Overseas exchange opportunities for professional staff were increased and the quality of human resources was elevated as a result.

Prospects

After the completion of the nationwide re-examination of production permits for enterprises in the dairy products industry by government authorities, the industry has been upgraded and become better regulated. As urbanisation and the consumption level in China continue to rise, its dairy products market should continue to bloom while the consumption demand for quality dairy products will be elevated. At the same time, supervision of dairy product manufacturers by the relevant government bureaus is to be more stringent. Higher expectations on areas including quality and safety, production scale and brand establishment of dairy products enterprises have been proposed in China's Twelfth Five-year Plan for Food Industry (食品工業「十二五」發展規劃).

Mengniu deems leading the development of the industry as its own responsibility. In future, “High Quality” (好品質) will continue to be the core guideline for its long-term development. The second five-year development plan is to reinforce active and comprehensive corporate internal development, through which healthy and natural choices of dairy products will be offered to consumers in China, thereby enhancing Mengniu's own brand image and the overall standards of the industry.

I. Enhancement of Milk Sources – Continue to Implement the Strategy of Standardising Ranches, Exploring Upstream Dairy Farming Industry, and Building its Advantage in Quality Milk Sources

The Group will reinforce its advantages in milk sources and continue to build its own ranch facilities and invest in ranches to further increase the proportion of ranch milk sources so as to achieve its strategic goal of expanding the use of ranch milk sources at an expedited pace. Mengniu will strengthen the monitoring of upstream raw materials, implement precise management procedures on veterinary drugs and fodder, and provide comprehensive technical support for milk source vendors so as to ensure the quality of milk sources. The Group will also explore the industry chain by entering the upstream dairy cattle breeding industry. It will apply modernised cattle raising technology and create the benchmark of raw milk mass production in China so as to create a leading model of quality milk source supply.

II. Quality Inspection – Establish Multi-level Internal Inspection Process and Proactively Accept Monitoring by Authoritative Institutions to Ensure Product Quality and Safety

Based on its past experience, Mengniu will adopt a series of reform measures to improve internal management of quality inspection. As at February 2012, the former quality control system was officially divided into two independent centres, a raw materials quality control centre and a finished goods quality control centre. Both centres will maintain checks and balances over each other and carry out comprehensive inspections on products from the pre-production stage to pre-delivery stage through cross-checking. Mengniu has also added a quality and safety administration centre directly responsible to the Chief Executive Officer. It has also introduced an advanced mechanism in overseeing the whole supply chain management and invited overseas experts to evaluate the inspection procedures, as well as strengthened training on awareness of product quality and safety among its staff with an aim

to safeguard product quality in a multi-faceted manner. Mengniu is also willing to accept voluntary inspection by authoritative institutions of the Government. Its products will be submitted to third parties for inspection on a random basis and such inspection results will be published so as to demonstrate to the public Mengniu's determination to pursue "High Quality" (好品質).

III. Product Portfolio – Develop Products with High Added Value and Functionality and Enrich Product Range in Segmented Markets

As the standard of living is enhanced, Chinese consumers' demand for quality and nutrition in dairy products is also rising. The Group will closely monitor the consumer trends in dairy products, continue to research and develop dairy products with high added value and functionality in response to the different needs of market segments, and increase the proportion of mid-range to high-end products so as to optimise product structure comprehensively. The overseas information and R&D stations as well as the advanced high-tech dairy products research institute of Mengniu help to provide marketing expertise and tremendous research and development efforts to the innovation and the research and development of quality products. On this basis, Mengniu is building popular high-end brands in different product categories including UHT milk, yogurt and ice cream, while focusing on different demographic segments by providing greater choices of dairy products catering for different consumer needs. Mengniu will devote efforts on innovation and upgrades with an aim to consolidate its market share and maintain its leading position in the industry.

IV. Brand Building – Adhere to the Key Emphasis of "High Quality for a Green Life" (好品質，綠生活), Fulfilling Social Responsibility and Enhancing Brand Image

"High Quality for a Green Life" (好品質，綠生活) continues to be the key guidelines to brand building and fulfilment of social responsibility for Mengniu. The hardships in the past have prompted Mengniu to pay more careful attention to quality and safety and become even more determined to insist on its pursuit of "High Quality". Mengniu has set the year 2012 as "The Year of Quality". Apart from exercising strict control over product quality in production and operations, it is promoting its corporate image as a corporation committed to offering healthy dairy products and dedicated to product quality and safety, thereby building a solid consumer base. At the same time, Mengniu is further intensifying its green strategy and putting its low-carbon vision into practice. Through actively organising and participating in environmental protection campaigns, the Group is creating an ECO-friendly corporate image while contributing to the development of ecology protection in China.

V. Global Strategy – Pursue the International Dairy Market, Integrate Market Resources and Steadily Move On to the Initial Stage of Internationalisation

As a pioneer in the Chinese dairy industry, Mengniu is broadening its vision and paying concern to the development trend of the global dairy market with an aim to implement its corporate development based on internationalisation of both its markets and management practices. For this purpose, Mengniu has set up a global strategic department which conducts thorough market research on the international dairy industry in order to fully understand the demand and supply characteristics of each regional market. With the strategic positioning in the internationalised market, resources and capacity as an integral part of the Group's strategy, the measures required are to be performed in a progressive and rational manner so as to steadily achieve the goal of globalisation of Chinese brands.

Corporate development is a course involving a long-term effort and a strong commitment. Mengniu is focusing on long-term goals and will meet the opportunities and challenge in the market with a strategic insight. The year 2012 marks the second year for the Group's implementation of its five-year plan. Mengniu will consolidate the achievements realised in 2011, learn from past shortcomings and strive to improve itself in order to accomplish the goals of its five-year plan, with an aim to become one of the world's top ten dairy companies.

CODE ON CORPORATE GOVERNANCE PRACTICE

The Company has adopted the code provisions set out in the Code on 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.

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with all applicable code provisions set out in the CG Code during the year ended 31 December 2011.

SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. The Directors have confirmed, following the specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2011.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2011.

AUDIT COMMITTEE

The Audit Committee has reviewed with the Company's management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters, including the review of the Group's audited financial statements for the year ended 31 December 2011.

SCOPE OF WORK OF ERNST & YOUNG

The financial information in respect of the preliminary announcement of the Group's results for the year ended 31 December 2011 have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.198 (2010: RMB0.16) per ordinary share for the year ended 31 December 2011. Upon shareholders' approval at the forthcoming annual general meeting (the "Annual General Meeting"), the proposed final dividend will be paid on or about Friday, 29 June 2012 to shareholders whose names appear on the register of members of the Company on Friday, 22 June 2012.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed (i) from Wednesday, 13 June 2012 to Friday, 15 June 2012, both days inclusive, for determining shareholders' eligibility to attend and vote at the Annual General Meeting, and (ii) from Thursday, 21 June 2012 to Friday, 22 June 2012, both days inclusive, for determining shareholders' entitlement to the proposed final dividend, during such periods no transfer of shares will be registered.

In order to qualify for attending and voting at the forthcoming Annual General Meeting of the Company to be held on Friday, 15 June 2012, all transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 12 June 2012.

In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 20 June 2012.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

BOARD OF DIRECTORS

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

APPRECIATION

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

By order of the Board
Yang Wenjun
Chief Executive Officer

Hong Kong, 27 March 2012