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 2015

HIGHLIGHTS

- With stronger cost effective operations, gross profit margin and net profit for the year were 31.4% and RMB2.37 billion respectively.
- Mengniu ranked 11th in the "Global Dairy Top 20" list released by Rabobank, its seventh consecutive year of inclusion. Mengniu was also included in the "*Fortune China* 500 in 2015", moving up five positions over last year.
- Mengniu has further consolidated its milk formula business, selling the entire equity interests in Oushi Mengniu to Yashili for RMB1.05 billion during the year. Besides, Mengniu and Yashili have jointly announced the proposed acquisition of the entire equity interest in Dumex China, which specializes in the infant milk formula business, from Danone Group for €150 million. The proposed acquisition has not yet completed.
- Mengniu facilitated the upgrade and transformation of its milk suppliers to realize the full coverage of ranch ensiling and Total Mixed Ration through enhancing the milk sources and active cooperation with its milk suppliers. During the year, the proportion of milk sources provided by ranches and scaled farms reached almost 100%.
- Mengniu has introduced the SAP system and upgraded the LIMS (Laboratory Information Management System), achieving the advanced management of quality informatization with a "One Key" tracking function, lab informatization and digitalization.
- Inner Mongolia Mengniu Danone Dairy Co., Ltd., a joint venture between Mengniu and Danone Group, has further consolidated technical and personnel resources so as to enhance the performance of the plants. Currently, Mengniu Danone continues to lead the chilled dairy products market in China and ranks first in market share.
- Mengniu has proactively initiated cooperation with international brands: in March, Mengniu renewed its strategic marketing partnership agreement with NBA China. It also launched special promotion packaged products with the NBA logo. In April, Mengniu entered into a strategic alliance agreement with Shanghai Disney Resort as the resort's official dairy provider.
- The factory in New Zealand, commanding an investment of more than RMB1 billion by Mengniu's subsidiary, Yashili, commenced operation in November 2015, as the first overseas factory which was 100% built by a domestic milk formula brand.

* *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**" or "**Mengniu**") for the year ended 31 December 2015, together with the comparative amounts.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
CONTINUING OPERATIONS			
REVENUE	4	**49,026,516**	50,049,243
Cost of sales		**(33,651,042)**	(34,615,630)
GROSS PROFIT		**15,375,474**	15,433,613
Other income and gains	4	**521,268**	449,074
Selling and distribution expenses		**(10,985,039)**	(10,563,695)
Administrative expenses		**(1,871,250)**	(1,941,237)
Other expenses	5	**(392,591)**	(713,207)
Interest income		**563,273**	547,638
Finance costs	7	**(318,634)**	(339,910)
Share of profits of associates		**137,669**	277,732
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	**3,030,170**	3,150,008
Income tax expense	8	**(510,038)**	(459,292)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**2,520,132**	2,690,716
DISCONTINUED OPERATION			
Profit/(loss) for the year from a discontinued operation	9	**122**	(63)
PROFIT FOR THE YEAR		**2,520,254**	2,690,653
Attributable to:			
Owners of the Company		**2,367,291**	2,350,803
Non-controlling interests		**152,963**	339,850
		2,520,254	2,690,653
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (EXPRESSED IN RMB PER SHARE)	11		*Restated*
Basic			
– For profit for the year		**0.609**	0.605
– For profit from continuing operations		**0.609**	0.605
Diluted			
– For profit for the year		**0.607**	0.602
– For profit from continuing operations		**0.607**	0.602

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2015

	2015	2014
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**2,520,254**	2,690,653
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(66,650)**	(69,434)
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments arising during the year	**9,645**	(9,645)
Income tax effect	**(1,257)**	1,257
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(58,262)**	(77,822)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Equity investments designated as fair value through other comprehensive income:		
Changes in fair value	**(117,050)**	219,694
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods	**(117,050)**	219,694
OTHER COMPREHENSIVE INCOME/(LOSS), NET OF TAX	**(175,312)**	141,872
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,344,942**	2,832,525
Attributable to:		
Owners of the Company	**2,157,043**	2,509,238
Non-controlling interests	**187,899**	323,287
	2,344,942	2,832,525

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

	Notes	**2015** **RMB'000**	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**11,637,977**	9,667,308
Construction in progress		**900,939**	2,030,097
Investment properties		**20,078**	103,814
Land use rights		**888,680**	1,050,567
Goodwill		**5,850,599**	5,837,501
Other intangible assets		**1,731,018**	1,620,375
Investments in associates		**4,185,883**	3,840,594
Deferred tax assets		**307,534**	379,910
Biological assets		**289,823**	160,271
Non-current financial assets		**2,327,916**	1,894,059
Long term prepayments		**91,738**	163,704
Total non-current assets		**28,232,185**	26,748,200
CURRENT ASSETS			
Other current financial assets		**5,255,273**	8,338,024
Derivative financial instruments		**10,944**	17,455
Inventories		**4,339,506**	4,342,292
Trade and bills receivables	*12*	**1,617,757**	1,148,186
Prepayments, deposits and other receivables		**2,158,884**	1,573,053
Pledged deposits		**722,402**	255,589
Cash and bank balances		**7,931,237**	4,649,560
		22,036,003	20,324,159
Assets of disposal groups classified as held for sale	*9*	**384,353**	8,433
Total current assets		**22,420,356**	20,332,592
CURRENT LIABILITIES			
Trade and bills payables	*13*	**4,644,298**	4,991,847
Other payables and accruals		**4,989,524**	4,554,420
Interest-bearing bank and other borrowings		**6,080,751**	4,360,618
Other loans		**43,915**	118,365
Derivative financial instruments		**3,160**	4,506
Deferred income		**45,652**	23,537
Income tax payable		**153,367**	297,280
		15,960,667	14,350,573
Liabilities directly associated with the assets classified as held for sale	*9*	**15,708**	572
Total current liabilities		**15,976,375**	14,351,145
NET CURRENT ASSETS		**6,443,981**	5,981,447
TOTAL ASSETS LESS CURRENT LIABILITIES		**34,676,166**	32,729,647

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
As at 31 December 2015

	2015	2014
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**4,969,511**	5,464,050
Long term payables	**68,399**	63,812
Deferred income	**303,116**	270,477
Deferred tax liabilities	**76,050**	92,076
Derivative financial instruments	**–**	7,618
Other non-current financial liabilities	**2,643,936**	2,338,741
Total non-current liabilities	**8,061,012**	8,236,774
NET ASSETS	**26,615,154**	24,492,873
EQUITY		
Equity attributable to owners of the Company		
Share capital	**357,262**	196,246
Treasury shares held under share award scheme	**(415,762)**	(489,075)
Other reserves	**13,321,140**	14,963,385
Retained earnings	**8,873,599**	6,818,844
	22,136,239	21,489,400
Non-controlling interests	**4,478,915**	3,003,473
TOTAL EQUITY	**26,615,154**	24,492,873

Notes:

1. CORPORATE AND GROUP 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 Hong Kong Companies Ordinance. They have been prepared on a historical cost basis except for share options, certain financial assets and derivative financial instruments which have been measured at fair value. Certain biological assets and agricultural produce are measured at fair value less costs to sell. Disposal groups classified as held for sale are stated at the lower of their carrying amounts and fair values less costs to sell. These financial statements 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 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the day that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.1 BASIS OF PREPARATION *(continued)*

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. A change in the ownership interest 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, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 19 *Defined Benefit Plans*: *Employee Contributions*
Annual Improvements to IFRSs 2010-2012 Cycle
Annual Improvements to IFRSs 2011-2013 Cycle

The nature and the impact of each amendment is described below:

(a) Amendments to IAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as the Group does not have defined benefit plans.

(b) The *Annual Improvements to IFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

- IFRS 8 *Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in note 3 in these financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of the decision making.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

- IAS 24 *Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

(c) The *Annual Improvements to IFRSs 2011-2013 Cycle* issued in January 2014 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

- IFRS 3 *Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of IFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

- IFRS 13 *Fair Value Measurement*: Clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 or IAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which IFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in IFRS 13.

- IAS 40 *Investment Property*: Clarifies that IFRS 3, instead of the description of ancillary services in IAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as the acquisition of investment properties during the year was not a business combination and so this amendment is not applicable.

In addition, the Company has adopted the amendments to the Listing Rules issued by The Stock Exchange of Hong Kong Limited relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in 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 four 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;
- Milk powder products segment – manufacture and distribution of milk powder; and
- Others segment – principally the Group's cheese, plant-based nutrition product and trading business.

Management monitors the results of the Group's 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, share of profits of associates, income tax expense, as well as head office and corporate expenses are excluded from such measurement.

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.

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

Year ended 31 December 2015

	Liquid milk products *RMB'000*	Ice cream products *RMB'000*	Milk powder products *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue:					
Sales to external customers	**43,326,642**	**2,141,192**	**3,228,800**	**329,882**	**49,026,516**
Intersegment sales	**417,043**	**188,830**	**50,378**	**236,331**	**892,582**
	43,743,685	**2,330,022**	**3,279,178**	**566,213**	**49,919,098**
Reconciliation:					
Elimination of intersegment sales					**(892,582)**
Revenue from continuing operations					**49,026,516**
Segment results	**3,166,684**	**(235,084)**	**(67,127)**	**(244,527)**	**2,619,946**
Reconciliation:					
Interest income					**563,273**
Finance costs					**(318,634)**
Share of profits of associates					**137,669**
Unallocated corporate expenses					**27,916**
Profit before tax from continuing operations					**3,030,170**
Income tax expense					**(510,038)**
Profit for the year from continuing operations					**2,520,132**
Segment assets	**26,601,192**	**1,896,127**	**14,331,373**	**1,324,122**	**44,152,814**
Reconciliation:					
Elimination of intersegment receivables					**(9,681,088)**
Unallocated corporate assets					**15,796,462**
Assets related to disposal groups					**384,353**
Total assets					**50,652,541**
Segment liabilities	**14,552,301**	**1,483,008**	**2,058,501**	**1,464,801**	**19,558,611**
Reconciliation:					
Elimination of intersegment payables					**(9,681,088)**
Unallocated corporate liabilities					**14,144,156**
Liabilities related to disposal groups					**15,708**
Total liabilities					**24,037,387**

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

Year ended 31 December 2015

	Liquid milk products *RMB'000*	Ice cream products *RMB'000*	Milk powder products *RMB'000*	Others *RMB'000*	Total *RMB'000*
Other segment information:					
Depreciation and amortisation	**1,096,485**	**92,171**	**162,242**	**35,416**	**1,386,314**
Unallocated amounts					**57,974**
Total depreciation and amortisation					**1,444,288**
Capital expenditure	**2,100,021**	**211,880**	**456,555**	**8,489**	**2,776,945**
Unallocated amounts					**249,975**
Total capital expenditure*					**3,026,920**
Impairment losses recognised in the consolidated statement of profit or loss	**45,044**	**4,893**	**2,182**	**1,190**	**53,309**
Impairment losses reversed in the consolidated statement of profit or loss	**(81,442)**	**(2,313)**	**(200)**	**–**	**(83,955)**
Impairment losses recognised/(reversed) in the consolidated statement of profit or loss	**(36,398)**	**2,580**	**1,982**	**1,190**	**(30,646)**
Net amortised/(reversal of) fair value relating to share option scheme and share award scheme	**12,640**	**(6,118)**	**5,726**	**–**	**12,248**
Unallocated amounts relating to share option scheme and share award scheme					**10,117**
Total non-cash expenses relating to share option scheme and share award scheme					**22,365**

* Capital expenditure consists of cash paid for the purchase of property, plant and equipment, construction in progress, intangible assets, land use rights, biological assets, equity interests in subsidiaries, associates and other equity investments.

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2014

	Liquid milk products *RMB'000*	Ice cream products *RMB'000*	Milk powder products *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue:					
Sales to external customers	43,036,163	2,716,096	3,960,963	336,021	50,049,243
Intersegment sales	855,158	145,220	487,863	217,565	1,705,806
	43,891,321	2,861,316	4,448,826	553,586	51,755,049
Reconciliation:					
Elimination of intersegment sales					(1,705,806)
Revenue from continuing operations					50,049,243
Segment results	2,930,154	4,363	354,682	(126,882)	3,162,317
Reconciliation:					
Interest income					547,638
Finance costs					(339,910)
Share of profits of associates					277,732
Unallocated corporate expenses					(497,769)
Profit before tax from continuing operations					3,150,008
Income tax expense					(459,292)
Profit for the year from continuing operations					2,690,716
Segment assets	22,706,898	2,583,398	12,409,854	1,795,576	39,495,726
Reconciliation:					
Elimination of intersegment receivables					(9,242,313)
Unallocated corporate assets					16,818,946
Assets related to a disposal group					8,433
Total assets					47,080,792
Segment liabilities	13,408,400	1,715,683	2,408,830	1,048,115	18,581,028
Reconciliation:					
Elimination of intersegment payables					(9,242,313)
Unallocated corporate liabilities					13,248,632
Liabilities related to a disposal group					572
Total liabilities					22,587,919

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2014

	Liquid milk products *RMB'000*	Ice cream products *RMB'000*	Milk powder products *RMB'000*	Others *RMB'000*	Total *RMB'000*
Other segment information:					
Depreciation and amortisation	999,647	116,295	147,057	28,185	1,291,184
Unallocated amounts					50,532
Total depreciation and amortisation					1,341,716
Capital expenditure	1,816,218	101,966	926,417	159,640	3,004,241
Unallocated amounts					274,037
Total capital expenditure*					3,278,278
Impairment losses recognised in the consolidated statement of profit or loss	377,051	8,439	2,555	2,281	390,326
Impairment losses reversed in the consolidated statement of profit or loss	(12,045)	–	–	–	(12,045)
Impairment losses recognised in the consolidated statement of profit or loss	365,006	8,439	2,555	2,281	378,281
Net reversal of fair value relating to share option scheme and share award scheme	(20,253)	(1,847)	–	–	(22,100)
Unallocated amounts relating to share option scheme and share award scheme					194,599
Total non-cash expenses relating to share option scheme and share award scheme					172,499

* Capital expenditure consists of cash paid for the purchase of property, plant and equipment, construction in progress, intangible assets, land use rights, biological assets, equity interests in subsidiaries, associates and other equity investments.

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

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.

Information about major customers

There was no single customer from which over 10% of the Group's revenue was derived.

4. **REVENUE, OTHER INCOME AND GAINS**

Revenue 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:

	2015	2014
	RMB'000	*RMB'000*
Revenue:		
Sale of goods	**49,026,516**	50,049,243
Other income and gains:		
Government grants related to		
– Recognition of deferred income	**32,939**	20,489
– Income and biological assets	**228,475**	151,031
Gain on disposal of subsidiaries	**60,232**	13,875
Gain on deemed disposal of a subsidiary	**–**	94,903
Gain on deemed disposal of partial interests in an associate	**–**	22,916
Gain arising from changes in contingent considerations	**95,022**	–
Gain on disposal of items of property, plant and equipment	**10,412**	–
Net fair value gain on forward currency contracts	**–**	17,455
Gross rental income	**47,357**	43,318
Others	**46,831**	85,087
	521,268	449,074
	49,547,784	50,498,317

5. OTHER EXPENSES

	2015	2014
	RMB'000	*RMB'000*
Donations	**12,362**	14,203
Fair value change of biological assets	**19,323**	–
Loss on disposal of items of property, plant and equipment	**–**	22,814
Provision for items of property, plant and equipment	**–**	1,551
Write-down of inventories to net realisable value	**43,806**	287,779
Provision for trade receivables and other receivables	**9,503**	100,996
Write-back of provision for trade receivables	**(83,955)**	(12,045)
Educational surcharges and city construction tax	**235,546**	214,295
Foreign exchange losses, net	**53,754**	37,986
Net fair value loss on forward currency contracts	**12,444**	–
Loss on deemed disposal of partial interests in an associate	**33,045**	–
Others	**56,763**	45,628
	392,591	713,207

6. PROFIT BEFORE TAX

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

	2015	2014
	RMB'000	*RMB'000*
Cost of inventories sold	**33,663,028**	34,612,864
Realised and unrealised fair value losses/(gains) of white sugar and palm oil commodity futures contracts, net	**(11,986)**	2,766
Cost of sales	**33,651,042**	34,615,630
Employee benefit expense (including directors' and chief executive's remuneration)		
– Wages, salaries, housing benefits and other allowances	**3,095,035**	2,863,833
– Retirement benefit contributions	**321,522**	271,609
– Share option scheme expense	**(69,359)**	(46,935)
– Share award scheme expense	**91,724**	219,434
	3,438,922	3,307,941
Depreciation of items of property, plant and equipment	**1,391,302**	1,294,922
Depreciation of investment properties	**3,030**	4,258
Amortisation of land use rights	**26,005**	25,264
Amortisation of other intangible assets	**23,951**	17,272
Research and development costs – current year expenditure	**81,900**	66,975
Outsourcing expense *(a)*	**483,914**	442,298
Minimum lease payments under operating leases	**196,825**	252,368
Display space leasing fees	**789,301**	599,450
Auditors' remuneration *(b)*	**6,390**	4,640

(a) In order to optimise the production plan for promoting operation efficiency purpose, the Group outsourced the production of certain products. The amounts represent the total amount paid by the Group for purchasing those products.

(b) In addition to the above fees paid or payable to the auditors, Yashili, a Hong Kong Main Board listed subsidiary of the Group, has an amount of RMB2,030,000 (2014: RMB1,830,000) paid/payable as auditors' remuneration during the year.

7. FINANCE COSTS

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

	2015 *RMB'000*	2014 *RMB'000*
Interest on bank loans	**188,110**	211,338
Interest on US$500,000,000 3.50% bond due 2018	**114,423**	106,871
Interest on long term payables	**6,502**	8,943
Increase in discounted amounts of contingent considerations arising from the passage of time	**8,918**	10,279
Net fair value loss on interest rate forward contracts	**681**	2,479
	318,634	339,910

8. INCOME TAX EXPENSE

Under the Law of the People's Republic of China on Corporate Income Tax ("PRC CIT law"), except for certain preferential tax treatment available to thirty (2014: twenty-four) subsidiaries of the Group, the entities within the Group are subject to the PRC corporate income tax ("CIT") at a rate of 25% (2014: 25%) on the taxable income as reported in their statutory accounts which are prepared in accordance with the PRC accounting standards and financial regulations.

	2015 *RMB'000*	2014 *RMB'000*
Current income tax		
Current charge for the year	**444,910**	681,915
Adjustments recognised in the year for current tax of prior years	**13,196**	6,705
Deferred income tax	**51,932**	(229,328)
	510,038	459,292

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:

	Note	**2015** *RMB'000*	2014 *RMB'000*
Profit before tax from continuing operations		**3,030,170**	3,150,008
At CIT rate of 25% (2014: 25%)		**757,543**	787,502
Non-deductible items and others, net		**(4,896)**	30,920
Adjustment recognised in the year for current tax of prior years		**13,196**	6,705
Effect of lower tax rates	*(a)*	**(94,433)**	(76,854)
Effect of tax exemptions	*(a)*	**(201,942)**	(211,536)
Profits attributable to associates		**(25,912)**	(62,303)
Tax losses utilised from previous periods		**(38,357)**	(35,255)
Tax losses not recognised		**104,839**	74,870
Utilisation of previously unrecognised temporary differences		**–**	(42,257)
Reversal of withholding tax at 5% on the distributable profits of the Group's certain PRC subsidiaries		**–**	(12,500)
At the effective income tax rate of 16.83% (2014: 14.58%)		**510,038**	459,292

8. INCOME TAX EXPENSE *(continued)*

Notes:

(a) Thirty (2014: twenty-four) subsidiaries were subject to tax concessions in 2015. The total taxable profits of the subsidiaries that are subject to tax concessions amounted to approximately RMB1,102,545,000 (2014: RMB1,197,932,000) in aggregate. Out of the thirty subsidiaries, fifteen (2014: twelve) were granted lower tax rates by the state tax bureau in accordance with the PRC CIT law and the corresponding transitional tax concession policy and "The notice of tax policies relating to the implementation of the western China development strategy." Twenty-two (2014: nineteen) subsidiaries were granted tax exemptions 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 RMB3,641,000 (2014: RMB12,404,000) is included in the share of profits of associates on the face of the consolidated statement of profit or loss.

9. DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

On 29 August 2013, Inner Mongolia Mengniu Founding Industry Management Co., Ltd. ("Founding") acquired an additional 64% equity interest in Chengdu Mengniu Dairy Sales Co., Ltd. ("Chengdu Sales") exclusively with a view to subsequent disposal within one year. Prior to the acquisition, Chengdu Sales was a 36% associate of Founding. The purchase consideration for the acquisition was in the form of cash of RMB5,763,000 paid on the acquisition date. Chengdu Sales engages in the dairy products trading business. The subsidiary was acquired for the purpose of the Group's distributorship reorganisation. As at 31 December 2013 and 2014, Chengdu Sales was in the process of liquidation. On 15 December 2015, the liquidation procedures had been concluded. As such the net assets of Chengdu Sales had been classified as a disposal group as at 31 December 2013 and 2014, and the operating results of Chengdu Sales for the years 2015, 2014 and 2013 had been disclosed as a discontinued operation in the consolidated financial statements.

As at 31 December 2015, Yashili International Holdings Ltd. ("Yashili") planned to dispose in the next 12 months, of Scient (China) Baby Nourishment Co., Ltd. ("Scient China") and Heilongjiang Yashilli Dairy Co., Ltd. ("Yashili Heilongjiang"), which no longer operated as at 31 December 2015. Scient China and Yashili Heilongjiang were principally engaged in the production and sale of paediatric milk formula products and base powders, respectively. The proposed disposal is pursued in view of the key strategic deployment of Yashili in the next five years, with an aim to provide a highly efficient and modern production layout through attaining an optimised and reasonable production capacity. As such, the net assets of Scient China and Yashili Heilongjiang were classified as disposal groups held for sale.

In addition, Danone Dairy (Shanghai) Co., Ltd. ("Danone Shanghai"), an indirectly owned subsidiary of the Group intends to dispose of a dairy processing plant it no longer utilises within 2016, which includes a parcel of land use right, production lines and related buildings. As at 31 December 2015, final negotiation for the sale was in progress and the related assets were classified as a disposal group held for sale.

9. DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE *(continued)*

The major classes of assets and liabilities of disposal groups classified as held for sale as at 31 December are as follows:

	2015	2014
	RMB'000	*RMB'000*
Assets		
Property, plant and equipment	**242,645**	–
Construction in progress	**378**	–
Investment properties	**44,538**	–
Land use rights	**50,110**	–
Other intangible assets	**144**	–
Deferred tax assets	**8,575**	–
Inventories	**31,229**	–
Trade and bills receivables	**144,094**	72
Prepayments, deposits and other receivables	**6,370**	7,812
Cash and bank balances	**961**	549
	529,044	8,433
Less: Intra-group receivables	**(144,691)**	–
Assets classified as held for sale	**384,353**	8,433
Liabilities		
Trade and bills payables	**33,454**	13
Other payables and accruals	**78,152**	559
Deferred tax liabilities	**5,414**	–
	117,020	572
Less: Intra-group payables	**(101,312)**	–
Liabilities directly associated with the assets classified as held for sale	**15,708**	572
Net assets directly associated with the disposal groups	**368,645**	7,861

10. DIVIDENDS

	Notes	**2015** **RMB'000**	2014 RMB'000
Declared and paid during the year			
Equity dividends on ordinary shares		**546,923**	391,060
Proposed for approval at the AGM			
Equity dividends on ordinary shares: Proposed final – RMB0.14 (2014: RMB0.28 (before bonus issue)) per ordinary share	*(a)/(b)*	**549,357**	548,406

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").

(b) This dividend was not recognised as a liability in the consolidated financial statements as at 31 December 2015 but will be reflected as an appropriation of share premium account for the year ending 31 December 2016.

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

(a) Basic earnings per share

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.

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

	2015 **Number of shares** ***'000***	2014 Number of shares *'000* *Restated*
Issued ordinary shares at 1 January	**1,958,591**	1,835,263
Effect of new shares subscription and issuance	**–**	121,236
Effect of bonus share	**1,961,292**	1,942,240
Effect of share options exercised	**2,391**	1,505
Effect of treasury shares purchase according to share award scheme	**(33,073)**	(15,764)
Weighted average number of ordinary shares as at 31 December	**3,889,201**	3,884,480

11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(continued)*

(b) Diluted earnings per share

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 or conversion of all dilutive potential ordinary shares into ordinary shares.

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

	2015 Number of shares *'000*	2014 Number of shares *'000* *Restated*
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	**3,889,201**	3,884,480
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the year	**3,281**	13,608
Adjustments for share award scheme	**4,761**	11,016
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	**3,897,243**	3,909,104

12. TRADE AND BILLS RECEIVABLES

	2015 *RMB'000*	2014 *RMB'000*
Bills receivable	**191,462**	116,946
Trade receivables	**1,500,562**	1,191,066
Impairment	**(74,267)**	(159,826)
	1,617,757	1,148,186

The Group normally allows a credit limit to its customers which is adjustable 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.

12. TRADE AND BILLS RECEIVABLES *(continued)*

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

	2015	2014
	RMB'000	*RMB'000*
Within 3 months	**1,389,573**	1,018,735
4 to 6 months	**94,581**	82,420
7 to 12 months	**50,881**	20,722
Over 1 year	**82,722**	26,309
	1,617,757	1,148,186

13. TRADE AND BILLS PAYABLES

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

	2015	2014
	RMB'000	*RMB'000*
Within 3 months	**4,005,836**	4,200,799
4 to 6 months	**602,214**	752,738
7 to 12 months	**29,781**	30,792
Over 1 year	**6,467**	7,518
	4,644,298	4,991,847

14. EVENTS AFTER THE REPORTING PERIOD

(a) On 1 December 2015, Danone Asia Pacific Holdings Pte, Ltd. ("Danone Asia Holdings") entered into an equity transfer agreement to sell a 100% equity interest in Dumex Baby Food Co., Ltd., which was a wholly-owned subsidiary of Danone Asia Holdings, to Yashili International Group Limited for a consideration of EUR150 million (equivalent to RMB1,030 million).

(b) On 23 January 2016, Scient International Group Limited., an indirect wholly-owned subsidiary of Yashili, entered into a memorandum of understanding with Ausnutria Dairy (China) Co., Ltd., to sell the entire equity interests in Scient China.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In 2015, affected by the slowdown of macroeconomic growth, the overall consumption of dairy products in China similarly exhibited modest growth. However, the innovation of product categories continued. With increasing per capita income and the progress of urbanization, the rise in consumption standard has in turn resulted in the upgrade in product structure; the enhancement of consumers' nutrition and health consciousness has also led to a faster growth in product categories such as high-end UHT milk, room temperature and chilled yogurt, pro-biotic drinks and infant milk formula compared to the overall industry. Amongst the various dairy products, liquid milk has maintained an important position in the market. As there is still substantial room for improvement in per capita dairy consumption and that the consumer base of dairy products will expand due to the introduction of the two-child policy, the dairy industry in China is set to maintain stable growth in the medium and long term.

In the last two years, the imbalance in supply and demand and the price volatility of raw milk has intensified the competition in China's dairy market and diversified the industry. With upstream enterprises extending to the downstream market, large international dairy companies entering the Chinese market and regional dairy companies investing more in the dairy industry, there was a multi-level competition in the liquid milk market in China. The increase in imported dairy products has stimulated the speed of market reaction of China's dairy enterprises and the product adjustment and upgrading of dairy enterprises.

During the year, in response to the call of the "Internet+" policy, domestic dairy companies have initiated cross-over cooperation, using the internet as the "Promotion+Channel" clusters to connect online and offline channels, understanding consumers' sentiment and enhancing interaction with consumers, so as to optimize the marketing model and sales channels.

BUSINESS REVIEW

In 2015, Mengniu continued to integrate its resources, accelerate its global expansion, study and implement excellent technology management systems and set up an advanced platform for research and development and innovation through collaboration with its leading global strategic partners, in order to gradually promote its "internationalization" and "digitalization". During the year, Mengniu was devoted to building the "Circle of Friends", linking the upstream and downstream industry segments together to create a win-win ecosystem. Mengniu has launched the Route to Market ("RTM") plan during the year, which focused on the informatization of sales channels to lay a foundation for strengthening direct control of core markets and the retail terminals in order to make the sales channels more competitive with wide coverage, high penetration and high efficiency. In addition, Mengniu continued to enhance product and packaging innovation, create three-dimensional marketing channels with the help of the internet, strengthen consumers' interactive experience with the brand and achieve high value-added brand perception among consumers through a digital marketing revamp. At the same time, Mengniu adhered to international standards, stringently controlling the quality and focusing on the upgrade of nutrition, quality and service through introduction of superior comprehensive industry chain management systems. Facing fierce market competition, Mengniu has maintained its development vision of "becoming a consumer-oriented and innovation-led century-old food company offering health and nutrition", as it expands its business and enhances efficiency.

The market share of Mengniu's liquid milk moved up slightly in 2015 as compared with 2014. The market shares of its room temperature and chilled milk rose slightly while products under brands such as *Milk Deluxe*, *Just Yoghurt*, *Yoyi C* and *Champion* recorded good sales performances. During the year, Mengniu ranked 18th among "the most valuable Chinese brands" in the BrandZ™2015 list, and was included among "Asia's Top 1000 Brands 2015" jointly published by Campaign Asia-Pacific and Nielsen, moving up more than 100 places. In the fifth China Brand Power Index (C-BPI) published by the Ministry of Industry and Information Technology in 2015, Mengniu was awarded the C-BPI champion in three categories – liquid milk, yogurt and ice cream for two consecutive years. In addition, Mengniu's *Prime Ranch Pure Milk* also garnered the "Best New Commercial Brand" award in the World Dairy Innovation Awards, the only Chinese dairy brand honored with such award in the year. Mengniu also received two awards – "Best IR by Chairman/CEO" and "Best IR Presentation Collaterals" from the Hong Kong Investor Relations Association, which recognized the investor communication efforts made by Mengniu and reflected investors' confidence in the Group.

Strategic Cooperation and Integration

– *Chilled business: Danone S.A. and its subsidiaries (the"Danone Group")*

  Danone Group is the second largest strategic shareholder holding 9.9% of Mengniu's shares. Inner Mongolia Mengniu Danone Dairy Co., Ltd. ("Mengniu Danone"), a joint-equity company established by Mengniu and Danone Group, has fully commenced operation. Mengniu and Danone Group hold 80% and 20% shares in the joint-equity company respectively.

Currently, Mengniu Danone continues to lead the chilled dairy products market in China, maintaining high sales growth and ranking first in terms of market share. During the year, Mengniu Danone has further integrated the advanced technology and professional expertise of Danone Group in order to standardize its plant operation and improve operational efficiency. The Ma'anshan plant has passed the 2015 global operation standard inspection of Danone Group, indicating that the plant continues to operate at a world-leading level. With the Ma'anshan plant as a pilot project, Danone Group has assigned technical experts to stay in Mengniu Danone's plants and led a pilot technical capacity match project and career planning project for basic technical personnel for the first time. The project has focused on improving the skills of basic staff, fully realizing the potential of staff and increasing team cohesion so as to further fortify and enhance the performance of the plants. A comprehensive evaluation and assessment on the Qingyuan plant has been completed during the year.

Mengniu Danone has deployed more resources into the upgrading of food safety equipment, which continuously improved the food safety management index for all its chilled plants during the year. Mengniu has conducted in-depth verification on foreign matter prevention and Clean in Place ("CIP") procedures and continued to improve its food safety standards, so as to supply high-quality chilled dairy products to consumers.

Mengniu Danone has focused on the marketing and promotion of three star brands – *Yoyi C*, *Champion* and *Bio* together with the development of its parent brand *Mengniu*. Mengniu Danone has also actively conducted new product research and development in order to reinforce the strength of its product line. During the year, *Yoyi C* has launched apple- and strawberry-flavored probiotic lactobacillus drinks aiming at child consumers to further expand the targeted consumer groups. Two new products, ready-to-drink version and oat product, were launched under the brand *Champion*. The new ready-to-drink version mainly targets the southern market which has a preference for thinner yogurt products, while the new oat product comes in two flavors – yellow peach oat and walnut oat. The new oat products adopted new specifications and new packaging with improvements on the grip of the bottles as well as the product taste, winning a broader market for Mengniu's high-end yogurt. *Bio*'s additive-free 170-gram packaged yogurt targeting the eastern and southern China market, was initially launched in Shanghai.

With the combined strength of Danone Group and Mengniu, Mengniu Danone is well-positioned to fully realize the huge potential of China's chilled dairy products market.

– *Arla Foods*

In 2015, the advanced ranch operating model and management standards of Arla Garden's ranch management system were successfully implemented, setting a modern benchmark for the ranch management of Mengniu's suppliers. The outstanding operation team of Arla Foods has conducted a technical assessment on Mengniu's UHT, chilled and ice cream plants and has comprehensively inspected the filling process, equipment maintenance, energy supply, utilization ratio of production lines and workflow standardization, made suggestions and formulated plans for optimization in these areas. Meanwhile, by benchmarking Arla Foods' innovation system, Mengniu has been continuing to upgrade and improve its research and development system.

As its exclusive distributor in China, Mengniu closely collaborates with Arla Foods in the imported dairy products business. Starting from the second quarter of 2015, imported Arla Foods UHT milk has been fully upgraded to global standard packaging, which is consisent with the image of a 100% imported product. Meanwhile, Mengniu has devoted greater effort to brand promotion in the end market and has cooperated with China Next Generation Education Foundation to launch the "Arla Foods Milk Donation Campaign", and has also deeply promoted the brand proposition of "Consumed by the Danish Royal Family, Crowning our Precious Health".

The development and verification of the fingerprint spectrum raw milk testing project introduced by the China – Denmark Milk Technology Cooperation Center have been successfully completed and entered the final stage, while research efforts were conducted to implement 11 testing methods for China's raw milk quality. The research on developing cheese products for Chinese consumers by Arla China Innovation Center has also achieved milestone results.

– *Milk formula business: Yashili International Holdings Ltd ("Yashili"; stock code: 1230)*

China Mengniu International Company Limited is the controlling shareholder of Yashili, holding 51.04% of its shares and Danone Asia Baby Nutrition Pte. Ltd. is the second largest shareholder of Yashili, holding 25.0% of its shares.

On 21 September 2015, Mengniu and Yashili jointly announced the sale of the entire equity interest in Oushi Mengniu (Inner Mongolia) Dairy Products Co., Ltd ("Oushi Mengniu") to Yashili for a consideration of RMB1.05 billion. The transaction has been completed during the year of 2015; on 2 December 2015, Mengniu and Yashili jointly announced the proposed acquisition of the entire equity interests in Dumex Baby Food Co., Ltd. (多美滋嬰幼兒食品有限公司; "Dumex China") which specializes in the infant milk formula business from Danone Group, a substantial shareholder of Mengniu and Yashili, for a consideration of €150 million. The transaction has not yet completed. Following completion of the proposed acquisition, Yashili will adequately integrate the resources, realizing the professional development of Mengniu's milk formula business more rapidly through collaboration and improved synergies and establishing a more competitive milk formula platform.

On 6 November 2015, the factory in New Zealand in which Yashili has invested more than RMB1 billion started operations. John Key, the Prime Minister of New Zealand, Steven Joyce, the Minister of Economic Development and Trade Department of New Zealand, Wang Lutong, the Chinese Ambassador to New Zealand, Sun Yiping, CEO of Mengniu, Lu Minfang, CEO of Yashili, government officials of China and New Zealand and representatives from Dairy Association of China attended and witnessed this milestone for Chinese dairy enterprises to "go global". Yashili's factory in New Zealand will significantly improve its international competitiveness. It is also the first overseas factory which was 100% built by a domestic milk formula brand.

– *Plant-based nutrition product business: The WhiteWave Foods Company (”WhiteWave”)*

Mengniu and WhiteWave established a joint-equity company in April 2014 in which Mengniu and WhiteWave hold 51% and 49% of the equity interest respectively. The joint-equity company is mainly engaged in the manufacturing, packaging and distribution of nutrition products in the PRC.

The joint-equity company has launched two flavors, namely walnut and almond, of *ZhiPuMoFang* plant-based beverage in December 2014. After one year of operation, Mengniu is very confident in the future market prospects of plant-based nutrition products. Together with Whitewave, Mengniu intends to continue to identify new market opportunities and improve its business model, so as to provide consumers with greater choices in healthy and nutritious products.

Quality Management

The “four carriages” of Mengniu’s quality management system, namely the quality and safety management system and three quality management centers for milk sources, operations and sales respectively, have continued to facilitate end-to-end quality management and control across the entire industry chain. Mengniu has introduced the SAP system and upgraded the LIMS (Laboratory Information Management System), achieving the advanced management of quality informatization with a “One Key” tracking function, lab informatization and digitalization. Meanwhile, Mengniu has conducted combined audits with 33 plants obtaining ISO9001 certification independently and 26 plants passing HACCP certification.

Mengniu has conducted preventive quality checks on its quality and safety management system during the year and the accident rate in factories has decreased significantly as compared with the same period last year since the quality check began in 2015. As for common risk management and control on raw milk, Mengniu has increased the sample testing frequency and implemented stricter requirements on sample testing in compliance with national requirements. In respect of risk management and control on historical quality, according to its preliminary alert projects, Mengniu assisted and checked on its major milk suppliers to effectively control the regional risk and help milk suppliers to minimize their economic losses. Sample testing organizations have randomly inspected various business divisions of Mengniu with a pass rate of 100% during the year.

Mengniu has also carried out maturity assessment and optimization on the quality and safety management system to more effectively generate synergies between the system and business development activities. By introducing the standards of COFCO Group and Danone Group, the quality review management of Mengniu’s suppliers was further optimized and the entry barriers were lifted, which guaranteed the quality, safety and stability of the supplied materials, promoting the healthy development of China’s dairy market.

The quality management center on milk sources together with the quality and safety management system carried out comprehensive review on the various milk sources divisions focusing on four dimensions including system building, milk supplier management, project progress and quality indicators. In order to further standardize the factory management of milk suppliers, Mengniu has urged the milk suppliers to standardize operations procedures in the long term by implementing cow milking, cleaning and storage standards and the Standard Operation Procedures ("SOP") with a view to effectively improve milk quality indicators. The quality management center on milk sources continued to guide the milk suppliers to enhance their feeding procedures improving from extensive feeding towards scientific herding to enhance the standard of feeding, thus improving the milk quality indicators.

The operation quality management center continued to develop and introduce advanced production and inspection technologies, improve the procedures of introducing new technologies, enhance the ability of the design of patents and independent implementation of technologies and remain at the forefront in its technologies. Meanwhile, the operation quality management center has enhanced quality management based on consumer experience through the concept of producing a perfect product at the beginning of the product design and strengthening integration of the upstream and downstream management of the supply chain to promote synergies and efficiency.

The management project for the construction of cold chain point-of-sale business of the sales quality management center officially launched in 2015 with the introduction of various standards for cold chain management and 32 sample markets for cold chain quality. By implementing the dairy products logistics tracking management project, products tracking from factories to sales terminals and the logistics chain became more transparent, marking an important milestone for Mengniu's ecosystem construction and a key step for Mengniu's strategy of digitalization.

The third-party international food safety standards jointly developed by Mengniu and AsureQuality, a state owned enterprise of New Zealand, were officially implemented during the year. As the first international safety and quality assurance system for ranch food introduced into China, the standards were guided by AsureQuality's experience in the international food safety field and combined with the general operation procedures standards adopted by China's ranches. The safety and quality assurance standard has relied on Mengniu's ranches to implement and optimize the procedures and is laying a foundation for China's domestic ranch standards. With its strategic suppliers adopting the standards, Mengniu is further improving its product quality to meet the international standard, so as to strengthen consumer confidence and build a China dairy brand which is widely recognized and trusted around the world.

During the year, Helingeer County became the national exhibition area of exported food and agricultural products quality and safety (dairy products), which means that Mengniu, as the only enterprise exporting dairy products and the dairy product enterprise which maintains the top overseas market share in the area, has become the sole quality and safety exhibition base of exported dairy product in China.

Raw Milk Sourcing

Continuously focusing on enhancing its milk sources and endeavoring to construct a harmonious, symbiotic and mutually supportive ecosystem, Mengniu has laid a sound foundation for its own sustainable development and the upgrade and transformation of China's dairy industry. Mengniu has promoted the transformation and upgrade of milk suppliers by providing financial and technical support to them. During the year, the proportion of milk sources provided by ranches and scaled farms reached almost 100%.

Starting from January 2015, the milk sources management system began to carry out two comprehensive coverage projects, ranch ensiling and Total Mixed Ration ("TMR"), with an aim to equipping all milk suppliers with ranch ensiling and TMR. After more than a year of hard work, the coverage rate increased from 52% at the beginning to 100% currently, realizing the full coverage of ranch ensiling and TMR.

During the year, in collaboration with China Agricultural University, the China Agricultural Machinery Testing Center of the Ministry of Agriculture (農業部農業機械實驗鑒定總站) and the Holstein Farmer Satellite Auditorium (荷斯坦衛星大講堂), Mengniu has launched the "2020 Ecosystem Project for Sustainable Development of Milk Sources" to develop a "sustainable ecosystem of milk sources", which influences the entire industry, starting from the forefront of the dairy industry chain. In order to accelerate the modernization of the dairy industry, the China Dairy Cow Industry Technology System (中國奶牛產業技術體系), the Dairy Industry Technical Service Alliance (奶業技術服務聯盟), the China Agricultural University and Mengniu have jointly set up the "Dairy Industry Ecosystem Cooperation Alliance"(奶業生態圈互助聯盟) based on the "2020 Ecosystem Project for Sustainable Development of Milk Sources". With the objective of "optimization of resources, joining hands and win-win and sustainable development", and supported by the three platforms of "Technology Innovation, Financial Security and Skill Enhancement", the alliance optimized and integrated industry resources to support the transformation, upgrade and the modernization of China's dairy industry and realize the industry's sustainable development.

Through cooperation with China Agricultural Machinery Testing Center of the Ministry of Agriculture, an authoritative national testing body, Mengniu has launched the "Cow 'SPA' Project", which optimized the cow milking system for milk suppliers and evaluated the health of milk cows by using comprehensive statistical data, enhancing the lives of the cows and fostering pristine ecological quality ranches.

Mengniu has also launched the "W-W Virtual Dairy Farming Industry Project" and "Project on Evaluation of the Operation of Milk Sources Ranches" which has targeted raw milk suppliers. The "W-W Virtual Dairy Farming Industry Project" has adopted a contract responsibility system in which the responsible managers of Mengniu's business divisions of the milk sources regularly evaluate more than 123 trial ranches based on four main areas, namely sources management, outcome review, technological management and financial management, as well as 24 indicators, and provide onsite technological services and implement improvement measures. The "Project on Evaluation of the Operation of Milk Sources Ranches" has initially provided services to 100 small-to-medium-sized milk suppliers' ranches nationwide which included the provision of professional testing instruments, scientific review plans and measures for comprehensive improvement. Mengniu, by implementing these projects, has helped the trial ranches to increase their output per unit and create financial value.

As an extension of the “University of Ranchers” program, the “Gold Key Project” has been co-launched by Mengniu and China Agricultural University. The “Gold Key Project” aims to integrate production with education and research, accelerate the technological innovations in the dairy industry and speed up the transformation of technological achievements and the progress of talent training by effectively integrating quality technology, talent and platform resources in the dairy industry. In response to the “Internet+” national strategic direction, Mengniu has also introduced the Holstein Farmer Satellite Auditorium, the first satellite service platform for the dairy industry in China, which provides a high-end learning platform for dairy farmers.

Sales Channels

During the year, Mengniu has launched the Route to Market project to improve the implementation of the informatization of its marketing channels, building a solid foundation for strengthening the control of terminal markets and enhancing channel management efficiency, developing sophisticated management and excellence in execution of the omni-channel management system. Mengniu has established a sales operation model with distributors at the core, which enables distributors, sales companies and Central Business Units (“CBU”) to collaborate and develop together over the long term. Mengniu has also integrated the point-of-sales management tools in the Wei Sales Platform (“WSP”) into its SAP-CRM system to achieve integrated control and management and further implement informatization in its sales channels.

Mengniu has adhered to a reform strategy of “vertical flattening, horizontal integration, function optimization and enhancement in various regions” and accelerated the progress of the RTM project launched during the year. Mengniu continues to take distributor model as the core sales operation model, enhancing distributors’ direct control over retail end and meanwhile, gradually increasing the sales volume contributed by sales company model and CBU model. The sales companies are the operating entity controlled by Mengniu. Mengniu is continuing to enhance the management of the sales companies, increase the number of sales representatives, provide direct services to various retail outlets and improve the independent operation capability of the sales companies. CBU is a non-independent branch within the physical operation platforms in sales regions and is a supplementary sales operation model to distributor and sales company models.

The WSP Project serves as a sales information management tool that supports terminal shopping guides and sales staff to operate at point-of-sale, which ensures paperless operation through a standardized process encompassing sales visit, regulation of management over employees’ attendance and guidance for benchmark management. In addition, through establishing a centralized basic information and data and standardized operation procedure, the WSP Project adopts a closed-loop management system over the entire process from target identification to terminal sale. By virtue of this project, each business segment in the internal operation of the sales system is interconnected, which enables the Company to realize real-time management over the entire platform in a professional, regulated, standardized and integrated manner, in turn further improving its management precision and efficiency on injection and write-off of marketing expense. The WSP project has been widely promoted among both the sales companies and CBUs.

During the year, Mengniu has promoted, on an overarching basis, the Key Account ("KA") management structure in line with the increasingly prevalent retailing trend. Under the three-tier organizational structure comprising the headquarters-based client team, the regional KA team and the distributor KA team, Mengniu is able to forge closer connections with retailers and more rapidly respond to changes in consumers' demands, and to achieve win-win cooperation with its retailers. In 2015, Mengniu was awarded the "Most Efficient Supply Chain" award for its efforts by CR Vanguard.

Leveraging the internet, Mengniu has executed change-over between agents and the e-commerce platform, e-commerce platform expansion and maintenance as well as the development and maintenance of products specially produced for e-commerce so as to satisfy the development trend of modern sales channels. In addition to maintaining the platforms such as Tmall, JD, Suning, Yhd.com, womai.com and Gome which have an extensive reach, Mengniu has also vigorously expanded its self-operated platform via WeChat. In this way, Mengniu's products have fully covered mainstream e-commerce platforms in China, contributing to the explosive growth of online sales.

With respect to sales in Hong Kong, Macau and overseas markets, Mengniu has focused on core products in line with the characteristics of the respective markets. During the year, three new ice cream product categories have been launched in the Mongolian market; *Yoyi C* was introduced to the Singapore market; whereas offerings in three product categories including *Yoyi C* in Hong Kong and Macau have been expanded. Besides, product categories with slow growth have been eliminated while new products have been launched successfully, driving the growth of sales revenue from overseas.

Branding Strategy

Adhering to the brand concept of "Little Happiness Matters", Mengniu continues to optimize its brand structure and implement product segment management. In addition, it keeps identifying quality and synergetic platforms to create brand association and to tie with consumers more closely so as to convey the core value of the brand.

In March 2015, Mengniu has renewed its marketing partnership agreement with NBA China. NBA China has also granted Mengniu the right to include its logo on the package design of Mengniu's products and to launch unique milk products with product and package design that incorporates elements of the NBA in the China market for the first time. In April 2015, Mengniu and Shanghai Disney Resort announced a long-term strategic alliance agreement whereby Mengniu has become the official dairy provider for the resort. In addition, Mengniu will have an integrated brand presence at a variety of locations in the resort, including ice cream carts and ice cream shops throughout the premises of Shanghai Disney Resort, ensuring that visitors to the resort can enjoy quality dairy products of Mengniu, including milk, yogurt and ice cream.

Besides, Mengniu has endeavored to enhance the attention and association between the brand and its target consumers through active cooperation with various platforms. During the year, Mengniu has become the title sponsor of Chef Nic Season 2, the leading variety show which has enjoyed the highest nationwide audience rating and pioneered the partnership between the dairy industry and large food travelogue show. Furthermore, Mengniu has continued to launch a series of innovative marketing activities such as "Scramble for Meal Tickets for Happiness (搶幸福飯票)" on Dazhong Dianping (大眾點評), the most popular restaurant-review site in China, sponsorship of "Chef Nic Special (鋒味專場)" held on JD.com (京東商城), one of the largest B2C online shopping platforms and the first-ever commercial icon cooperation with "Didi Dache (滴滴打車)".

Through sponsoring Up Idol (偶像來了) (a primetime variety show presented by Hunan TV) and promoting the product through emotion embedding, the *Just Yogurt* brand has been blended into the program theme while the content has built up brand recall and prompted product consumption. Besides, Mengniu has also collaborated with another prime variety show, Run for Time (全員加速中), in delivering a classic program for *Just Yoghurt* series. While the program was broadcast, online real time interaction was conducted to enhance communication with the consumers so as to create brand resonance among the viewers.

Innovation is another essential element of Mengniu's brand strategy. As the trend develops, the brand has gradually shifted to market its products through video. To mark the 10th Anniversary of the launch of *Milk Deluxe*, Mengniu, together with Ifeng, Sohu and Netease have collaboratively produced a video "One Hundred Days to Record One Hundred People, A Decade of an Adventurous Journey (百人百天 • 十年敢想)" comprising one hundred stories to record the reflections of one hundred social elites and celebrities of the last decade. Through retrospection over the last decade, which is the theme of the video, these people have improved their lives because they dared, which truly convey the brand concept of *Milk Deluxe*. Through portraying the experience of growth with consumers for the last decade, *Milk Deluxe* succeeds in touching people's hearts with the slogan "A Better Decade Begins from A Better You (更好的10年，從更好的你開始)".

In addition, Mengniu has made use of social networking and social media to enhance interaction with consumers and deepen the brand value. For the *Champion* series products, the Company has collaborated with "WeChat Shake" to establish an innovative O2O communication channel and introduce the WeChat Card Gift for the first time, realizing communication across platforms of different sectors. Leveraging the widespread influence of social network media, the promotional activities of *Champion* series products have attracted considerable attention and were widely circulated, thereby consolidating the position of the brand, boosting the brand recognition and strengthening core values, further enhancing the influence and popularity of the brand.

In respect of *Fruit Milk Drink*, Mengniu has mainly strived to improve brand activeness, focusing on major sales regions and forming a communications matrix through the integration of online and offline resources. Through movie marketing, video broadcast and title sponsorship for TV programs, the brand statement, "Reality Is More Fun" (真實才夠FUN) for *Fruit Milk Drink* has been widely propagated and successfully captured the attention of young consumers. By virtue of an overarching marketing strategy, *Fruit Milk Drink* was awarded the honor of "Chinese Creative Communication Awards – Golden Prize for O2O Marketing" during the year.

Under the brand proposition of "Youth, Daring to Do and Say" and "Youth, Daring to Challenge Oscar," *Suan Suan Ru*, by adopting a three dimensional transmission model through the integration of TV, video and Internet, and film excerpts, and combining interactive promotion through QR codes, has deepened the brand penetration and enhanced the brand value. Moreover, leveraging TFBOYS, the brand ambassadors, the campaign focused on the core target in delivering the brand proposition. During the year, the popularity of *Suan Suan Ru* was greatly enhanced, and it garnered the honor of "Chinese Creative Communication Awards – Silver Prize for Self-operated Platform Marketing."

For *Yoyi C*, Mengniu cooperated with Tencent Live Music for concert broadcasting, and provided assistance to promote the film of "Doraemon" aiming to raise the brand awareness and popularity and, in turn, to drive sales through interactive communication with the youth. Meanwhile, *Yoyi C* entered into strategic cooperation with Dazhong Dianping, targeting to increase brand recognition, transmission and influence with the help of its hot-spot resources.

Mengniu has been dedicated to enhancing its brand value comprehensively through continuous integration of resources including combining online and offline resources. During the year, Mengniu established management systems for three product segments, specifically UHT dairy products, chilled dairy products and milk beverages, enhancing product positioning, research and development, and marketing strategies for these segments. Mengniu's brand value was also reflected intangibly through closer interaction with consumers.

Management System

In 2013, Mengniu introduced the state-of-the-art SAP system to build up and boost its management capabilities in six aspects – precision marketing and in-depth sales channel management; integrated management platform for business and finance; responsive synergistic system for production, supply and sales; integrated quality management and sophisticated quality tracking; scientific and rational industrial planning; and efficient management of procurement and logistics.

The SAP project is being implemented in three stages: the first stage is the foundation implementation phase taking place in 2013 and 2014; the second stage is the operational refinement phase in 2015 and 2016, and the third stage is the coordination and optimization phase in 2016 and 2017. The implementation is currently at the second stage.

The first stage of the SAP system was completed successfully in March 2015, including two sub-projects, namely the Enterprise Resource Planning ("ERP") and Customer Relationship Management ("CRM"). The first stage of the SAP project consisted of management of inventory, expenses, sales plan management, customer portals, markets, milk sources, procurement, production planning, logistics, quality control and financial aspects, all covering four major product categories, namely UHT, chilled products, ice cream and cheese. With the smooth implementation of the first stage of the SAP project, Mengniu was able to realize integration of the entire supply chain, financial aspects and the production, supply and sale businesses. Besides, the standardization and transparency of Mengniu business data have been greatly enhanced. At the same time in order to improve the internal work efficiency, management efficiency and decision-making efficiency, data extraction and data application have been further realized.

The second stage of the SAP project includes four sub-projects, namely Business Intelligence ("BI"), Plant Maintenance ("PM"), Integration of Business and Finance of Sales Company and Finance Shared Service Center ("FSSC"). All of these four sub-projects were officially launched in the first half of 2015 with the commencement of the blueprint design.

The overall planning of the BI project has been completed on 23 August 2015. On 1 December 2015, the BI sales implementation project was successfully implemented. The fact that the BI sales system has been implemented means that the decision makers, management and executives of Mengniu may utilize the unified BI system analysis platform to gain access to any operational data and support for making decisions on a real-time basis with the help of computers, IPAD tablets and cell phone mobile clients. This in turn enables Mengniu to rapidly monitor sales, expenses and inventory data, strengthen its capability to manage points-of-sales and achieve breakthroughs from the conventional practice of conducting business analysis based on a single aspect of information. As such, new momentum has been injected into the Group's management to implement the "Digital Mengniu" strategy.

The PM project began official implementation on 30 October 2015. The PM pilot project, covering a total of 15 plants in four major regions including Helin, Jiaozuo, Tai'an and Wuhan, has mainly involved the entire life cycle management of production, as well as related inspection, central labs and R&D equipment. Horizontal integration of asset management, finance management and materials management was established on the SAP system. The project is expected to be implemented nationwide in 2016 based on the pilot results.

In respect of the Integration of Business and Finance of the Sales Company, the implementation of the pilot project has officially been rolled out for five selected sales companies on 1 November 2015. The wide coverage of this project across various businesses and channels has laid a solid foundation for the large-scale promotion to other sales companies. The successful implementation of the Integration of Business and Finance of the Sales Company has not only enabled Mengniu to transform a fragmented systematic management into a centralized one, which made the whole value chain system more completed and efficient. It is also an important step for Mengniu to transform its channels and realize its five-year strategic plan. The successful implementation of the pilot project can serve as a model for those sales companies and CBUs which will implement the project in 2016.

In respect of the FSSC project, the management advisory and system implementation works have been simultaneously carried out since its kickoff on 18 March 2015. Currently, the sharing platform for finance has fully implemented the FSSC project which has officially begun operations. Through the FSSC project, all the business and finance systems have been interconnected, which in turn has laid a firm foundation for the Group to further establish shared service centers related to human resources, information technology and procurement. Successful implementation of the FSSC provides powerful support for financial and general management, and has also facilitated the procedural transformation of the FSSC, resulting in improved efficiencies of the Group on management structure, cost saving, innovation and adaptation of technology as well as organizational and procedures reform.

FINANCIAL REVIEW

Affected by the weak macro-economic condition and intense market competition, the Group's total revenue for 2015 was RMB49,026.5 million (2014: RMB50,049.2 million), representing a year-on-year decrease of 2.0%; meanwhile, the revenue of Yashili for the year was RMB2,211.8 million (2014: RMB2,816.4 million). Excluding Yashili, the revenue of the Group decreased by RMB418.1 million to RMB46,814.7 million (2014: RMB47,232.8 million). Brands such as *Milk Deluxe*, *Yoyi C*, *Champion* and *Just Yoghurt* recorded strong sales.

Gross Profit

In view of market competition, the Group stepped up its effort on product promotion. As a result, the gross profit of the Group for the year decreased to RMB15,375.5 million (2014: RMB15,433.6 million) while gross margin increased by 0.6 percentage point to 31.4% (2014: 30.8%) as compared with 2014. Excluding Yashili, the Group's gross profit was RMB14,242.4 million (2014: RMB13,969.8 million), while gross margin increased by 0.8 percentage point year-on-year to 30.4%.

The gross profit of Yashili for the year amounted to RMB1,133.1 million (2014: RMB1,463.8 million).

Operating Expenses

The Group proactively adjusted its expenses in response to market conditions. As a result, operating expenses increased to RMB13,248.9 million (2014: RMB13,218.1 million), and their percentage of the Group's revenue increased by 0.6 percentage point to 27.0% (2014: 26.4%). Excluding Yashili, the Group's operating expenses were RMB11,883.1 million (2014: RMB11,870.3 million), representing 25.4% of the revenue excluding the contribution of Yashili (2014: 25.1%).

In response to market competition, the Group has continued to expand its sales channels and enhance its marketing efforts. Selling and distribution expenses for the year increased by 4.0% to RMB10,985.0 million (2014: RMB10,563.7 million), and their percentage of the Group's revenue increased to 22.4% (2014: 21.1%). Excluding Yashili, the Group's selling and distribution expenses were RMB9,872.6 million (2014: RMB9,456.9 million), representing 21.1% of the revenue excluding the contribution of Yashili (2014: 20.0%), an increase of 1.1 percentage points year-on-year.

The advertising and promotion expenses for the year decreased by 2.2% to RMB4,085.1 million (2014: RMB4,177.3 million), and their percentage of the Group's revenue remained unchanged at 8.3% (2014: 8.3%). Excluding Yashili, the Group's advertising and promotion expenses decreased by 4.4% to RMB3,578.2 million (2014: RMB3,742.3 million), representing 7.6% of the revenue excluding Yashili's contribution (2014: 7.9%).

Administrative and other operating expenses decreased by 14.7% to RMB2,263.8 million (2014: RMB2,654.4 million), and their percentage to the Group's revenue decreased to 4.6% (2014: 5.3%). Excluding Yashili, the Group's administrative and other operating expenses was RMB2,010.5 million (2014: RMB2,413.4 million), representing 4.3% of the revenue excluding Yashili's contribution (2014: 5.1%). The decrease was mainly a result of the impairment of a significant amount of raw milk powder inventory for 2014.

Profit from Operating Activities and Net Profit

The EBITDA of the Group has decreased by 1.3% to RMB4,229.9 million (2014: RMB4,283.9 million), and EBITDA margin remained unchanged at 8.6% (2014: 8.6%). Excluding Yashili, the EBITDA of the Group was RMB4,228.7 million (2014: RMB3,946.7 million), with the EBITDA margin increasing to 9.0% (2014: 8.4%).

Profit attributable to owners of the Company increased by 0.7% year-on-year, amounting to RMB2,367.3 million (2014: RMB2,350.8 million) of which RMB36.3 million was contributed by Yashili (2014: RMB121.5 million). Basic earnings per share was RMB0.609 (2014: RMB0.605)[1], representing a year-on-year increase of 0.7%. Excluding Yashili, profit attributable to owners of the Company was RMB2,331.0 million (2014: RMB2,229.3 million), representing an increase of 4.6% year-on-year.

Income Tax Expenses

The effective income tax rate of the Group for 2015 was 16.8% (2014: 14.6%), increasing by 2.2 percentage points year-on-year. Excluding Yashili, the effective income tax rate of the Group was 17.1% (2014: 14.1%), an increase of 3.0 percentage points year-on-year. The increase in effective income tax rate during the year was mainly due to the fact that the Group, acting prudently, has not recognised the tax losses arising in certain subsidiaries as deferred income tax assets during the year.

Capital Expenditure

As of the end of 2015, capital expenditure ("CAPEX") of the Group was RMB3,026.9 million (2014: RMB3,278.3 million), which represents a year-on-year decrease of 7.7%. The CAPEX consists of expenditures that were spent on building new and modifying existing production facilities and related investment amounting to RMB2,874.4 million, purchasing biological assets amounting to RMB152.5 million. Excluding Yashili, the CAPEX of the Group was RMB2,682.2 million (2014: RMB2,554.0 million). The CAPEX of Yashili amounted to RMB344.7 million, which was mostly spent on constructing the factory in New Zealand. The Group has adopted a prudent strategy in its CAPEX, so as to lay a sound foundation for future development.

[1] Earnings per share were stated after taking account of the impact from the bonus issue. The figure was restated on the assumption that the bonus issue occurred during the period.

Working Capital, Financial Resources and Capital Structure

The Group's net cash inflow from operating activities decreased to RMB1,909.2 million (2014: RMB3,079.9 million), primarily due to i) the Group providing more relaxed credit terms for customers in response to market changes; ii) increase in prepayments and prepaid expenses; and iii) decrease in trade payables.

As at 31 December 2015, outstanding bank loans and bonds of the Group increased to RMB11,050.3 million (31 December 2014: RMB9,824.7 million). Excluding Yashili, the outstanding bank loans and bonds of the Group were RMB10,388.6 million (31 December 2014: RMB9,062.1 million).

Net borrowings (total amount of bank loans and bonds net of cash and bank balances) of the Group as at 31 December 2015 were RMB3,119.0 million (31 December 2014: RMB5,175.1 million). Excluding Yashili, the net borrowings of the Group were RMB4,938.7 million (2014: RMB5,212.3 million).

The Group's total equity as at 31 December 2015 was RMB26,615.2 million (31 December 2014: RMB24,492.9 million). The debt-to-equity ratio (total amount of bank loans and bonds over total equity) was 41.5% (31 December 2014: 40.1%).

Finance costs of the Group for 2015 were RMB318.6 million (2014: RMB339.9 million), accounting for about 0.6% of the revenue (2014: 0.7%). Excluding Yashili, the finance costs of the Group were RMB301.0 million, accounting for 0.6% of the revenue excluding that of Yashili (2014: 0.7%), which represents a year-on-year decrease of 0.1 percentage point.

Products

In 2015, Mengniu has accelerated the deployment and integration of global strategic resources, aiming to further increase the market share of the major products through focusing on key products and production innovation. Responding to the popular demand for "Internet+" policy, Mengniu has launched digital reform through two-way internet interaction and complete and accurate big data analysis to accurately assess consumers' needs, upgrade the product mix and optimize product quality. By utilizing both online and offline channels, Mengniu has innovated product packaging, sales channels and marketing methods, improved the brand experience, strengthened consumers' loyalty, and delivered continuous improvement of its product mix.

Mengniu's principal businesses comprise liquid milk, ice cream, milk formula and other products. Their performance during the year is outlined in the table below.

Product Category	Financial Performance	Highlights	Key Products
Liquid milk	Revenue amounted to RMB43,326.6 million (2014: RMB43,036.1 million), accounting for 88.4% of Mengniu's total revenue (2014: 86.0%)		
UHT milk	Revenue amounted to RMB21,364.5 million (2014: RMB23,701.6 million), accounting for 49.3% of the liquid milk segment revenue (2014: 55.1%)	– Coinciding with the 10th Anniversary of its launch, *Milk Deluxe* debuted the latest upgrade in January 2016. In particular, the premium protein contained in every 100ml of milk was increased from 3.3g to 3.6g, whereas the primary calcium content was increased from 110mg to 120mg, representing a new level of nutrition. – *Pure Milk* introduced customized packaging featuring NBA, advocating a more stylish and healthy lifestyle centering on milk, delivering a perfect combination of healthy nutrition with sport. – *Awakening Youth Milk*, a dairy product with specialized functions suitable for the middle-aged and the elderly, is dedicated to the health of the elderly. It conveyed the brand principle that "every box of milk carries our regards", addressing consumers' needs for emotional communication. – *XinYangDao* upgraded the packaging of three products, whole milk, low-fat milk and nutritious milk, relieving consumers with lactose intolerance from difficulty in digestion and featuring the slogan "Lactose-free milk, better ingestion of nutrients". – *Latte* highlighted the marketing theme of "Fully enjoy the romantic good taste". Apart from sponsoring online variety shows, *Latte* was also the sponsor of A-mei's world tour concert offline and appointed Kris Wu as the brand ambassador in order to turn their fans into loyal consumers and enhance the consumers' loyalty to the product through celebrity association.	– *Milk Deluxe* – *Milk Deluxe Global Selection Pure Milk* – *Milk Deluxe Grain* – *Prime Ranch Pure Milk* – *Awakening Youth Milk* – *Future Star Kid Milk* – *Arla Foods Organic Pure Milk* – *Latte*

Product Category	Financial Performance	Highlights	Key Products
Milk beverages	Revenue amounted to RMB10,434.7 million (2014: RMB11,920.6 million), accounting for 24.1% of liquid milk segment revenue (2014: 27.7%)	– *Go Chang*, a tasty fat-free UHT pro-biotic drink, was officially launched in January 2016. Since it contains six probiotics and is free of fat and any preservative and pigment, *Go Chang* is helpful in colon cleansing and making our body feel comfortable. – In the *Future Star* series the brand *Miao Miao Kid Milk* has been recently launched with fortified calcium, iron and zinc and the addition of prebiotics, satisfying children's requirements for nutrition. – *Suan Suan Ru* has introduced innovative Off POP packaging. Benefitting from its brand ambassadors TFBOYS, a popular music group, *Suan Suan Ru* aims to attract young consumers by highlighting the vibrant nature of the brand with feature of the "Voice of Music" to convey the youngbrand proposition of "Youth, daring to do and say". – The marketing of *Fruit Milk Drink* is based on the slogan that "Fruity Milk Offers What is Fun (滿口果粒，自然有樂趣)". Through the three dimensional dissemination model as built by film, TV programs and network programs, *Fruit Milk Drink* can better convey the idea of the brand that "Reality is More Fun". – *Yoyi C* newly launched a 340ml low-sugar flavor beverage and an upgraded sea salt lemon flavor beverage, with fermentation based on the active probiotics originated from Denmark, offering consumers a truly refreshing taste. In addition, new 100ml plain, apple and strawberry flavors were also available.	– *Go Chang* – *Fruit Milk Drink* – *Suan Suan Ru* – *Yoyi C* – *Future Star Miao Miao Kid Milk*

Product Category	Financial Performance	Highlights	Key Products
Yogurt	Revenue amounted to RMB11,527.4 million (2014: RMB7,413.9 million), accounting for 26.6% of the liquid milk segment revenue (2014: 17.2%)	– *Champion*, adopting the new 250-gram Tetra Pak packaging, was made with selected premium Australian oats, BB Bifidobacterium from Denmark and the milk sources of Mengniu ranchers, producing the "great yogurt that cannot be replicated". Besides, new yellow peach oat and walnut oat flavors have been launched. – *Bio* adopted a new 170-gram packaging, which was more convenient for consumers to carry and enjoy the additive-free healthy yogurt anywhere and anytime. – In a new product launch by Mengniu, the *Nourishing+ Red Dates* flavor yogurt pleased consumers with a rich and creamy taste and rich nutrition, especially the red date oat and red date walnut flavors, the perfect blend of nourishing red dates, aromatic oats and walnuts and nutritious yogurt. – With "Yogurt, *Just Yoghurt*" as this year's marketing theme, *Just Yoghurt* joined forces with local media and held the offline promotion activity "Runs the Bubble", to further consolidate the pure fresh image of the product.	– *Champion* – *Bio* – *Just Yoghurt* – *Future Star Kid Yogurt*
Ice cream	Revenue amounted to RMB2,141.2 million (2014: RMB2,716.1 million), accounting for 4.4% of the total revenue (2014: 5.4%)	– *Deluxe* released the latest yogurt ice cream packaged in a plastic cup. This product was fermented completely from pure fresh milk, and later processed by ice cream-making technology. It is a crossover product with two taste textures concentrated in one cup, which means that consumers can enjoy the tasty and refreshing ice cream while experiencing healthy and nutritious yogurt. – *Ice+* has launched the new lemongrass and peach and apricot flavored yogurt ice creams. Delicious yogurt ice cream with real fruit pulp wrapped in an icy shell is not only tasty and useful in relieving summer heat, but also totally redefines the *Ice+* brand to consumers with the rich taste, beyond the traditional brand concept of icy and cool, thus making it a favorite choice of consumers.	– *Deluxe* – *Mood for Green* – *Ice+* – *Suibianbaoliao*

Product Category	Financial Performance	Highlights	Key Products
		– *Suibianbaoliao* is a new crossover product developed with Mengniu's unique wet-and-dry separation technology, marking a breakthrough in solving the difficult technical challenge of water transfer when producing ice cream. *Suibianbaoliao* was the first ice cream product based on dry ingredients in the domestic market. Its taste is crispy and lasting bringing enjoyment of consumers.	
Milk formula	Revenue amounted to RMB3,228.8 million (2014: RMB3,961.0 million), accounting for 6.6% of the total revenue (2014: 7.9%)	– Mengniu has launched an "contaminant-free" new product, *Ruipuen Organic Infant Milk Formula*, with milk sources from Europe which has been certified by the responsible organic authority in China. The product aims to set the highest safety standard for milk formula and endeavors to bring Chinese mothers higher quality and safe milk formulas. – A new member, *Meimengyi*, has been added to Mengniu Arla's "Beauty Series". Its formula is designed to best suit babies' nutrition needs by releasing various growth, nutrition and health active elements in order to provide comprehensive and balanced nutrition for babies at every stage of growth and development. – Yashili has launched the *Super α-Golde*n and *Arla Merla* milk formula series offering quality nutrition targeting the high-end market segment. – Catering for cardiovascular and osteoporosis related health issues of the middle-aged and the elderly, Yashili has developed *Awakening Youth Energizer Milk* with special phytosterol ester additives, and *Strengthener Milk* with special milk mineral additives.	– *Oushi* – *Ruipuen* – *Milex* – *Meimengyi* – *Arla Merla* – *Yashily Super α-Golden* – *Arla Baby & Me*

Product Category	Financial Performance	Highlights	Key Products
Other products	Revenue amounted to RMB329.9 million (2014: RMB336.0 million), accounting for 0.6% of the total revenue (2014: 0.7%)	– Four flavors of Arla Foods' *Kids Cheese Sticks* including plain, mild, strawberry and banana are available, providing a variety of tastes and nutrition content for kids. – The joint-equity company has launched two series, namely walnut and almond, of *ZhiPuMoFang*, the nutritious beverage with plant protein, fulfilling the demand in the premium plant based beverage market in China.	– *Future Star Kids Cheese Sticks* – *European Fromage Frais* – *European Fermented Milk* – *ZhiPuMoFang*

PRODUCTION

Mengniu has deployed its production capacity in line with market potential while executing its product strategy. As at December 2015, Mengniu has 33 production bases across the country, with a total production capacity of 8.68 million tons (December 2014: 8.10 million tons).

CORPORATE SOCIAL RESPONSIBILITY

Mengniu has consolidated its social responsibility into the corporate culture, persisting its vision of "sustainable ecosystem" that includes aspects of food safety, product innovation, efficient management, green development, care for staff as well as community development. During the year, Mengniu, together with its partners, employees and warm-hearted persons from all walks of life, has strived to bring happiness to society.

Mengniu has always endeavored to improve education in rural areas. Starting from donation of materials through charity activities, "Looking for Teachers with the Most Beautiful Hearts in Rural Areas," Mengniu has gradually allied with other social celebrities and ecosystem partners to jointly participate in the establishment of sustainable ecosystem that provides assistance for the public interest. Through the project of "Give a Lecture in My Hometown" initiated three years ago, Mengniu has already provided children living in rural areas with numerous lectures concerning music, sport and english learning by cooperating with 108 charities, 89 enthusiastic individuals and a voluntary team comprising more than 30,000 Mengniu staff. This activity has covered a total of more than 600 rural schools in 22 provinces and municipalities, benefiting more than 100,000 teachers and students. During the year, Mengniu has also collaborated with Beijing Normal University and professional institutions, to arrange medium and long term aid for education, which provided direct support to rural schools and quenching children's hunger for knowledge. As more celebrities have joined in, the activity has received increasing public attention. As for children living in poor areas, in addition to donating materials to improve educational conditions there, Mengniu also aims to nurture their souls and visions through spiritual communication with voluntary teachers.

During the year, Mengniu has played an active role in the “Red-ribbon Health Ambassador Campaign on Campuses Advocating a Beautiful Youth”, with the objective of preventing the spread of AIDS. As HIV-positive carriers have progressively become younger, university students have become a high risk group vulnerable to AIDS. For almost 13 months, Mengniu has visited 16 universities in 14 provinces across the country, including Dongbei University of Finance and Economics, Fudan University, Nankai University, China Agricultural University, Zhejiang University, Hunan University, Shenzhen University, etc., to provide AIDS-related voluntary education for students there. In order to raise awareness among the youth, Mengniu has encouraged users of WeChat, a social media, to light up the red-ribbon images, so as to reinforce the influence and dissemination of this campaign.

In connection with the “University of Ranchers” project initiated since 2013, Mengniu has established advanced education and training bases through the alliance with partners at the top of the industry chain and the integration of hundreds of domestic and overseas experts, supported by responsible authorities and leading institutions like the Ministry of Agriculture, China Agricultural University and Holstein. Since its initiation up to the date hereof, the “University of Ranchers” has trained more than 1,800 people and raised 348 practical and innovative rancher projects, contributing significantly to the sustainable development of the dairy industry and cultivation of professional talent.

With respect to energy saving, Mengniu has put in place a five-year water-saving plan in 2014, implementing eight water-saving practices. These practices include saving water used in cooling towers, recycling of water used for cooling equipment, recycling of steam-condensed water, recycling of water used for equipment cleaning, saving water for utilities through the upgrade of water treatment plants and reduction of water consumption, all aimed at substantially saving water. During the year, Mengniu has completed implementation of 41 such water conservation-related practices, saving 864,000 tons of fresh water each year.

In 2015, Mengniu activated the second stage of the “Ecosystem 1+1” project principally involving *Just Yoghurt*, *Yoyi C* and other core products, focusing on the reduction of energy and water consumed in production. Through close cooperation with the plants and departments responsible for safety, environmental protection, technology, research and development, and quality, Mengniu has optimized the production procedure, cleaning process and equipment, which in turn has enabled it to save energy, reduce consumption and cut costs.

In order to more effectively control the real-time discharge of wastewater, Mengniu has established an on-line wastewater monitoring system at Group level and implemented real-time and on-line monitoring of the sewage indicators at 30 sewage treatment plants. Mengniu has also established the Energy Management and Control Center. Through automatic collection, monitoring and analysis, energy data from all of its production factories nationwide have been summarized in the Center for centralized management and monitoring. In November 2015, the pilot projects processed by the Center have been successfully inspected and accepted by the Energy Control Center of Inner Mongolia Autonomous Region, representing an efficient reduction of energy consumption per ton of products.

As for environmental protection, Mengniu has strived to promote utilization of renewable energy by replacing natural gas with biofuel and renovating the boilers. At the moment, two biofuel boilers weighing 15 and 10 tons at Wuhan factory respectively and one 25 ton biofuel boiler at Tangshan factory have been established and have commenced operation. Upon completion of the renovation, it is expected that approximately 31,000 tons of standard coal will be saved and 77,300 tons of carbon dioxide will be reduced on an annual basis. Meanwhile, Mengniu has actively adopted a synergistic energy model and replaced all the ordinary power stations with high-efficiency power stations. Upon the completion of the modification, 4.12 million kWh of electricity are expected to be saved annually.

Mengniu's corporate social responsibility efforts were fully recognized both by the society and the industry. In 2015, Mengniu was awarded with the prize of "Chinese Enterprises Environment Contribution" at the Sixth Chinese Enterprises Green Development Forum, and its CEO, Ms. Sun Yiping, was also honored as the "China Corporate Social Responsibility Outstanding Entrepreneur" at the Seventh China Corporate Social Responsibility Summit. Besides, Mengniu's project "Dairy Enterprises Relying on the Management of Sustainable Milk Sources" garnered the second prize in the "National Business Administration Modern Innovation Achievement" scheme. Furthermore, for the "Mengniu Corporate Social Responsibility Project of University of Ranchers," Mengniu was honored as the "Golden Bee Enterprise" and was selected for the "Golden Bee CSR China Honor Roll" in 2014 as an example of Chinese enterprises fulfilling their corporate social responsibility.

HUMAN RESOURCES

As at 31 December 2015, the Group has a total of about 39,683 employees in China and Hong Kong, including around 4,641 employees of Yashili. During the year, total staff costs (including salaries of directors and senior executives) amounted to approximately RMB3,438.9 million (2014: RMB3,307.9 million).

Mengniu strongly believes that the core element for the Group's sustainable development is "motivating its staff to grow together with the Group". During the year, Mengniu has actively developed a culture that encourages amicable competition and motivation, and has built up, nurtured and strengthened the talent team through four major aspects, namely team contribution, team enhancement, team cooperation and team building. Specific measures included conducting corporate culture audit, team and staff appraisals and staff efficiency audit; as well as improving remuneration system, managing staffing cost, deploying e-HR and adopting a restricted share award scheme.

Guided by its innovative personnel management concept, Mengniu designed the team and individual appraisals and put them in place in specific departments. Through the implementation of the project, Mengniu has examined and planned for the future corporate structure, identified and developed talent with high potential and established succession plans for key positions so as to achieve the strategic objective of the Group's business development and the sustainable growth of the Group.

During the year, to achieve professional development of its talent in two different fields, Mengniu has continued to implement two talent selection and training programs, namely the "Management 100 Series" and the "Professional 100 Series." For the five sub-projects of the "Management 100 Series," specifically "100 Senior," "100 Junior," "100 MT," "100 GT" and "Mulan 100,' a total of 21 training courses have been conducted and the accumulated training headcount was 1,807 individuals since the launch of the program in 2013. The five sub-projects of the "Professional100 Series," namely "Quality 100," "Sales 100," "Technology 100," "Milk Source 100" and "100 PT," a total of 17 training sessions have been conducted and the accumulated training headcount was 1,689 individuals.

In addition, Mengniu continued to promote and implement the "Big Dipper" leadership behavior model, encompassing its vision, innovation, teamwork, execution, organization, and decision-making and training skills, and has applied the model to development and the succession plan, for the purpose of boosting the leadership capability of its management across various levels.

PROSPECTS

The year of 2015 presented challenges for China's dairy industry, with an over-supply of raw milk, fluctuations in consumers' demand and intense market competition. However, there is still huge room for the growth for dairy product consumption per capita in China. Besides, the acceleration of urbanization, rising per capita income and the implementation of the two-child policy in the country can facilitate increasing total domestic consumption of dairy products in the long term. Meanwhile, as consumption demand continues to escalate and consumers have stronger expectation for high-end nutritious and healthy dairy products, these trends will spur the innovation of product categories and upgrading of products for the dairy industry, resulting in optimization of the industrial structure. As the industry's leading dairy enterprise, Mengniu will closely monitor market developments to continually capitalize on any opportunity brought about by the changes.

In the future, Mengniu will continue to closely cooperate with its strategic partners. Mengniu will learn from advanced experience and technology from the international partners, hoping to speed up innovation in research and development and to enhance operational management efficiency. Mengniu will strive to expand its income and profit base and optimize efficiency by adopting cost control measures. Mengniu will increase the basic market share of liquid milk and reinforce its leading position in the chilled products market. As to the milk formula business, it will continue to conduct channel transformation and brand upgrades with coordination of international strategic resources. Through the execution of its internationalization and digitalization, Mengniu endeavors to realize its corporate vision of "becoming a consumer-focused and innovation-led century-old food company offering health and nutrition".

Mengniu will utilize its digital tools to increase direct communication with consumers, so as to more clearly understand their needs and provide them with more selections of nutrition and health products. At the same time, it also emphasizes brand building. Through strengthening the parent brand and creating synergies between the parent and sub-brands, Mengniu has enhanced the two-way interaction with consumers and their brand experiences, so as to clearly convey Mengniu's message of "A Drop of Goodness" to the general public.

Furthermore, Mengniu will consolidate its sales operation model, with distributors at the core and distributors, sales companies and CBU collaborate and develop together over the long term. In addition, Mengniu will enhance the direct control on sales terminals and service quality, so as to increase the percentage and volume of directly controlled point-of-sales. In order to further improve market penetration, Mengniu will also expand its sales channels to the urban and rural areas in the more remote regions.

In terms of internal management, Mengniu will maintain the principle of "optimizing system and processes, cultivating talent and developing with innovation". Leveraging the SAP platform, Mengniu will strengthen its capability of digital management, drive the transformation of internal management procedures and model, cut down administration costs, stimulate profit growth and improve the overall competitiveness of the Group. In terms of soft power, corporate development relies on cultivation of talent. Mengniu will continue to show its most sincere concern to each individual staff and pay close attention to the cultivation of their innovative spirit and global vision, as it pursues the corporate culture of "Honesty, Innovation, Passion and Openness".

In an ever-changing market landscape, Mengniu will strive to become the "Most Dynamic Chinese Enterprise" by adopting a consumer-centric approach and using innovation as a driving force.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code (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 of the CG Code during the year ended 31 December 2015, except that the Chairman of the Board was unable to attend the annual general meeting of the Company held on 5 June 2015 due to unavoidable business engagements outside of Hong Kong.

SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted, in terms no less exacting than, the standards required by 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. Having made specific enquiry of all the Directors, the Company confirms that, during the year ended 31 December 2015, all the Directors have strictly complied with the Model Code.

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 2015, except that the trustee of the share award scheme of the Company adopted on 26 March 2013 (the "**Scheme**"), pursuant to the rules of the Scheme, purchased on the open market a total of 5,447,000 shares (before bonus issue adjustment) of the Company at a total consideration of approximately RMB135.5 million.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the Company's management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal control and financial reporting matters, including the review of the Group's financial statements for the year ended 31 December 2015.

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 2015 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 RMB0.14 (2014: RMB0.28 (before bonus issue)) per ordinary share for the year ended 31 December 2015. Upon shareholders' approval at the forthcoming AGM, the proposed final dividend will be paid on or about Wednesday, 22 June 2016 to shareholders whose names appear on the register of members of the Company on Friday, 10 June 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed (i) from Wednesday, 1 June 2016 to Friday, 3 June 2016, both days inclusive, for determining shareholders' eligibility to attend and vote at the AGM, and (ii) on Friday, 10 June 2016, 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 AGM of the Company to be held on Friday, 3 June 2016, 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, 31 May 2016.

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, 8 June 2016.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of the Company at *www.mengniuir.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 of the Company are Ms. Sun Yiping and Mr. Bai Ying. The non-executive directors of the Company are Mr. Ma Jianping, Mr. Yu Xubo, Mr. Niu Gensheng, Mr. Finn S. Hansen, Ms. Liu Ding and Mr. Christian Neu. The independent non-executive directors of the Company are Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Zhang Xiaoya, Mr. Wu Kwok Keung Andrew and Dr. Liao Jianwen.

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
China Mengniu Dairy Company Limited
Sun Yiping
Chief Executive Officer and Executive Director

Hong Kong, 22 March 2016