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 2012

HIGHLIGHTS:

For the Year Ended 31 December	**2012** *RMB'000*	2011 *RMB'000*
Revenue	**36,080,353**	37,387,844
Gross profit	**9,054,567**	9,592,152
Profit attributable to owners of the Company	**1,257,148**	1,589,274
Net cash inflow from operating activities	**2,006,896**	2,520,057
Earnings per share *(RMB)*		
– Basic	**0.711**	0.908
– Diluted	**0.711**	0.905

- Through continuous optimisation of product structure and stringent cost control measures, Mengniu's business remained stable during 2012. Revenue of the year amounted to RMB36,080.4 million, and profit attributable to owners of the Company was RMB1,257.1 million.
- In response to the market demand, Mengniu's annual production capacity increased by 0.53 million tons, amounting to a total of 7.58 million tons by December 2012.
- In alliance with international market-leading counterparts, Mengniu built up a new quality and safety management structure, bringing quality control into full play across every detail of the entire production chain.
- Continued to enhance milk sources by promoting scaled ranching. The proportion of milk sources provided by ranches and scaled farms further expanded to 93%, a leading position within the industry. Mengniu also proceeded with eight self-built ranches.
- Introduced Arla Foods, a dairy enterprise in Europe, as its second largest strategic shareholder and established long-term strategic collaboration; co-established the China-Denmark Milk Technology and Cooperation Centre, extending collaboration and communications to technology, talent exchange etc, to boost the development of the whole industry.
- Launched the new brand concept focusing on "Quality" and "Happiness", marking the birth of a brand-oriented vision driven by consumer need.
- Consolidated the sales channels aiming at better control over sales terminals and increasing overall efficiency; adjusted its branding strategies to focus on key brands and launch sales activities.

* *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 2012, together with the comparative amounts.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	4	**36,080,353**	37,387,844
Cost of sales		**(27,025,786)**	(27,795,692)
GROSS PROFIT		**9,054,567**	9,592,152
Other income and gains	4	**257,054**	296,265
Selling and distribution expenses		**(6,425,842)**	(6,694,705)
Administrative expenses		**(1,195,416)**	(1,110,089)
Other expenses	5	**(196,046)**	(187,162)
PROFIT FROM OPERATING ACTIVITIES		**1,494,317**	1,896,461
Interest income		**218,616**	173,052
Finance costs	7	**(41,754)**	(60,942)
Share of profits and losses of associates		**13,855**	52,059
PROFIT BEFORE TAX	6	**1,685,034**	2,060,630
Income tax expense	8	**(245,476)**	(276,081)
PROFIT FOR THE YEAR		**1,439,558**	1,784,549
Attributable to:			
Owners of the Company		**1,257,148**	1,589,274
Non-controlling interests		**182,410**	195,275
		1,439,558	1,784,549
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (EXPRESSED IN RMB PER SHARE)	10		
– Basic		**0.711**	0.908
– Diluted		**0.711**	0.905

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**7,891,914**	6,806,539
Construction in progress		**596,812**	887,103
Land use rights		**807,443**	585,007
Long term prepayments		**299,947**	243,942
Goodwill		**482,436**	482,436
Other intangible assets		**225,977**	224,887
Investments in associates		**77,921**	153,352
Available-for-sale investments		**509,788**	295,206
Deferred tax assets		**72,093**	66,749
Other financial assets		**53,521**	69,961
Biological assets		**211,686**	–
		11,229,538	9,815,182
CURRENT ASSETS			
Available-for-sale investments		**240,000**	–
Inventories		**1,419,898**	1,685,247
Bills receivable	*11*	**176,386**	261,024
Trade receivables	*12*	**625,087**	574,734
Prepayments and deposits		**949,956**	774,907
Other receivables		**359,877**	289,427
Investment deposits		**160,000**	102,800
Pledged deposits		**51,602**	175,289
Cash and bank balances		**5,778,390**	6,523,075
		9,761,196	10,386,503
CURRENT LIABILITIES			
Trade payables	*13*	**2,381,955**	2,543,405
Bills payable	*14*	**1,296,910**	1,141,141
Deferred income		**19,056**	18,912
Other payables		**1,632,144**	1,581,781
Accruals and customers' deposits		**993,460**	1,180,720
Interest-bearing bank loans		**573,777**	537,544
Other loans		**24,915**	119,094
Income tax payable		**58,426**	103,228
		6,980,643	7,225,825
NET CURRENT ASSETS		**2,780,553**	3,160,678
TOTAL ASSETS LESS CURRENT LIABILITIES		**14,010,091**	12,975,860

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*
As at 31 December 2012

	2012	2011
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Long term payables	**144,593**	188,739
Deferred income	**215,740**	234,940
Deferred tax liabilities	**33,051**	22,830
Other financial liabilities	**544,858**	480,531
	938,242	927,040
NET ASSETS	**13,071,849**	12,048,820
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**181,151**	181,087
Retained earnings	**3,745,840**	3,074,337
Other reserves	**8,516,301**	8,215,634
	12,443,292	11,471,058
Non-controlling interests	**628,557**	577,762
TOTAL EQUITY	**13,071,849**	12,048,820

NOTES:

1. CORPORATE INFORMATION

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared on a historical cost basis except for share options, certain available-for-sale equity investments, biological assets and derivative financial instruments, which have been measured at fair value. They are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The result of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the day that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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

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

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

2.2 IMPACT OF REVISED IFRSs

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities*[3]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
IAS 19 Amendments	*Employee Benefits*[2]
IAS 27 (Revised)	*Separate Financial Statements*[2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

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

3. OPERATING SEGMENT INFORMATION

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

- Liquid milk products segment – manufacture and distribution of ultra-high temperature milk ("UHT milk"), milk beverages and yogurt;

- Ice cream products segment – manufacture and distribution of ice cream; and

- Other dairy products segment – mainly manufacture and distribution of milk powder.

Management monitors the results of 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. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs, dividend income, as well as head office and corporate expenses are excluded from such measurement.

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

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

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

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

Year ended 31 December 2012

	Liquid milk products *RMB'000*	**Ice cream products** *RMB'000*	**Other dairy products** *RMB'000*	**Total** *RMB'000*
Segment revenue:				
Sales to external customers	**32,336,980**	**3,171,482**	**571,891**	**36,080,353**
Intersegment sales	**245,591**	**27,153**	**223,935**	**496,679**
	32,582,571	**3,198,635**	**795,826**	**36,577,032**
Reconciliation:				
Elimination of intersegment sales				**(496,679)**
Revenue				**36,080,353**
Segment results	**1,830,740**	**39,048**	**(144,035)**	**1,725,753**
Reconciliation:				
Interest income				**218,616**
Finance costs				**(41,754)**
Share of profits and losses of associates				**13,855**
Unallocated corporate expenses				**(231,436)**
Profit before tax				**1,685,034**
Income tax expense				**(245,476)**
Profit for the year				**1,439,558**
Segment assets	**16,458,513**	**1,405,014**	**599,990**	**18,463,517**
Reconciliation:				
Elimination of intersegment receivables				**(5,392,320)**
Unallocated corporate assets				**7,919,537**
Total assets				**20,990,734**
Segment liabilities	**10,988,647**	**816,066**	**675,978**	**12,480,691**
Reconciliation:				
Elimination of intersegment payables				**(5,392,320)**
Unallocated corporate liabilities				**830,514**
Total liabilities				**7,918,885**

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2012

	Liquid milk products *RMB'000*	Ice cream products *RMB'000*	Other dairy products *RMB'000*	Total *RMB'000*
Other segment information:				
Depreciation and amortisation	**851,104**	**90,441**	**27,085**	**968,630**
Unallocated amounts				**48,242**
Total depreciation and amortisation				**1,016,872**
Capital expenditure	**1,819,585**	**334,865**	**8,789**	**2,163,239**
Unallocated amounts				**103,291**
Total capital expenditure				**2,266,530**
Impairment losses recognised in the consolidated income statement	**31,396**	**418**	**2,021**	**33,835**
Other non-cash expenses	**21,273**	**3,277**	**(380)**	**24,170**
Unallocated amounts				**(4,998)**
Total non-cash expenses				**53,007**

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

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2011

	Liquid milk products *RMB'000*	Ice cream products *RMB'000*	Other dairy products *RMB'000*	Total *RMB'000*
Segment revenue:				
Sales to external customers	33,701,215	3,258,602	428,027	37,387,844
Intersegment sales	185,099	17,057	89,761	291,917
	33,886,314	3,275,659	517,788	37,679,761
Reconciliation:				
Elimination of intersegment sales				(291,917)
Revenue				37,387,844
Segment results	2,026,108	31,181	(21,188)	2,036,101
Reconciliation:				
Interest income				173,052
Finance costs				(60,942)
Share of profits and losses of associates				52,059
Unallocated corporate expenses				(139,640)
Profit before tax				2,060,630
Income tax expense				(276,081)
Profit for the year				1,784,549
Segment assets	14,940,212	1,613,604	343,248	16,897,064
Reconciliation:				
Elimination of intersegment receivables				(4,756,443)
Unallocated corporate assets				8,061,064
Total assets				20,201,685
Segment liabilities	10,814,233	1,016,822	261,879	12,092,934
Reconciliation:				
Elimination of intersegment payables				(4,756,443)
Unallocated corporate liabilities				816,374
Total liabilities				8,152,865
Other segment information:				
Depreciation and amortisation	706,532	85,752	23,113	815,397
Unallocated amounts				48,140
Total depreciation and amortisation				863,537
Capital expenditure	2,393,609	230,444	7,260	2,631,313
Unallocated amounts				64,951
Total capital expenditure				2,696,264*
Impairment losses recognised in the consolidated income statement	1,868	12,596	31	14,495
Other non-cash expenses	66,420	6,357	652	73,429
Unallocated amounts				100,112
Total non-cash expenses				188,036

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

3. **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.

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

	2012	2011
	RMB'000	*RMB'000*
Revenue:		
Sale of goods	**36,080,353**	37,387,844
Other income and gains:		
Government grants related to		
– Biological assets	**7,000**	–
– Other assets	**19,056**	17,257
– Income	**136,544**	59,488
Gain on deemed disposal of an associate	**4,384**	21,566
Gain on disposal of associates	**50,635**	–
Foreign exchange gains, net	**–**	143,693
Others	**39,435**	54,261
	257,054	296,265
	36,337,407	37,684,109

5. **OTHER EXPENSES**

	2012	2011
	RMB'000	*RMB'000*
Write-off of inventories	**4,828**	6,258
Write-down of inventories to net realisable value	**2,637**	1,522
Loss on disposal of items of property, plant and equipment	**6,035**	8,502
Loss on disposal of biological assets	**428**	–
Donations	**6,046**	7,924
Provision for trade receivables and other receivables	**31,198**	12,973
Educational surcharges and city construction tax	**134,944**	143,005
Foreign exchange losses, net	**289**	–
Others	**9,641**	6,978
	196,046	187,162

6. PROFIT BEFORE TAX

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

	2012	2011
	RMB'000	*RMB'000*
Cost of inventories sold	**27,024,074**	27,788,961
Realised and unrealised fair value losses of derivative financial instruments, net	**1,712**	6,731
Cost of sales	**27,025,786**	27,795,692
Employee benefit expense (excluding directors' and chief executives' remuneration)		
– Wages, salaries, housing benefits and other allowances	**1,738,773**	1,471,455
– Retirement benefit contributions	**174,963**	137,049
– Share-based payment expense	**16,508**	136,620
	1,930,244	1,745,124
Depreciation of items of property, plant and equipment	**993,853**	839,264
Amortisation of land use rights	**14,863**	12,538
Amortisation of other intangible assets	**8,156**	11,735
Research and development costs – current year expenditure	**55,401**	54,787
Provision for trade receivables and other receivables	**31,198**	12,973
Minimum lease payments under operating leases on buildings and certain production equipment	**212,739**	153,082
Display space leasing fees	**590,251**	593,090
Auditors' remuneration	**4,220**	4,140

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2012	2011
	RMB'000	*RMB'000*
Interest on long term payables	**15,913**	9,846
Interest on bank loans wholly repayable within five years	**21,014**	46,540
Increase in discounted amounts of contingent consideration arising from the passage of time	**4,827**	4,556
	41,754	60,942

8. INCOME TAX EXPENSE

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

Under the Law of the People's Republic of China on Corporate Income Tax ("PRC CIT law"), except for certain preferential treatment available to eighteen (2011: sixteen) of the Group's subsidiaries and a jointly-controlled entity, the entities within the Group are subject to CIT at a rate of 25% (2011: 25%) on the taxable income as reported in their statutory accounts which are prepared in accordance with the PRC accounting standards and financial regulations.

	2012	2011
	RMB'000	*RMB'000*
Current income tax		
Current income tax charge	**255,739**	260,330
Adjustments recognized in the year for current tax of prior years	**(4,919)**	1,440
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences	**(5,344)**	14,311
	245,476	276,081

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:

		2012	2011
	Notes	***RMB'000***	*RMB'000*
Profit before tax		**1,685,034**	2,060,630
At CIT rate of 25% (2011: 25%)		**421,259**	515,157
Non-deductible items and others, net		**4,645**	17,352
Adjustment recognised in the year for current tax of prior years		**(4,919)**	1,440
Effect of preferential tax rates	*(a)*	**(65,011)**	(102,931)
Effect of tax exemptions	*(a)*	**(124,537)**	(132,691)
Tax losses not recognised		**34,821**	13,566
Utilisation of previously unrecognised tax credits		**(20,782)**	(35,812)
At the effective income tax rate of 14.6% (2011: 13.4%)		**245,476**	276,081

8. INCOME TAX EXPENSE *(continued)*

Notes:

(a) Eighteen (2011: sixteen) subsidiaries and a jointly-controlled entity were subject to tax concessions in 2012. The total taxable profits of the subsidiaries that are subject to tax concessions amounted to approximately RMB723,966,000 (2011: RMB541,960,000) in aggregate. Out of the eighteen subsidiaries, eight (2011: six) were granted tax concessions by the state tax bureau in accordance with the PRC CIT law and the corresponding transitional tax concession policy and "The notice of preferential tax policies for companies located in West China". Fifteen (2011: thirteen) subsidiaries were granted tax concessions in accordance with the policy of "The notice of preferential tax policy for preliminary processing of agriculture products".

(b) The share of tax attributable to associates amounting to approximately RMB8,613,000 (2011: RMB17,447,000) is included in the share of profits and losses of associates on the face of the consolidated income statement.

9. DIVIDENDS

	Notes	**2012** **RMB'000**	2011 RMB'000
Declared and paid during the year			
Equity dividends on ordinary shares		**350,009**	279,233
Proposed for approval at the AGM			
Equity dividends on ordinary shares: Proposed final – RMB0.16 (2011: 0.198) per ordinary share	*(a)/(b)*	**282,917**	349,953

Notes:

a. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (the "AGM"). This dividend was not recognised as a liability in the consolidated financial statements as at 31 December 2012 but was reflected as an appropriation of retained earnings for the year ending 31 December 2013.

b. The proposed final dividend for the year is appropriated from the undistributed profit earned before 1 January 2008.

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

The basic earnings per share for the year is calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

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

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

	2012	2011
	Number of shares	Number of shares
	'000	*'000*
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	**1,767,801**	1,750,820
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the year	**165**	5,728
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	**1,767,966**	1,756,548

11. BILLS RECEIVABLE

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

	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**123,024**	224,987
4 to 6 months	**53,362**	36,037
	176,386	261,024

12. TRADE RECEIVABLES

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.

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

	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**488,313**	465,053
4 to 6 months	**129,015**	86,195
7 to 12 months	**6,811**	15,347
Over 1 year	**948**	8,139
	625,087	574,734

13. TRADE PAYABLES

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**2,282,063**	2,350,904
4 to 6 months	**72,400**	177,669
7 to 12 months	**23,501**	12,114
Over 1 year	**3,991**	2,718
	2,381,955	2,543,405

14. BILLS PAYABLE

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

	Group	
	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**600,589**	617,363
4 to 6 months	**696,321**	523,778
	1,296,910	1,141,141

MANAGEMENT DISCUSSION AND ANALYSIS

Economic Environment in China

There was a slight slowdown in China's economy growth under difficult global economic environment for the year 2012. However, guided by the PRC government's principle of "Progressing with Stability", the GDP for the year exceeded RMB50 trillion, representing a year-on-year growth of 7.8%, down by 1.4 percentage points as compared with 2011. The actual growth of urban household income per capita and rural household net income per capita were 9.6% and 10.7% respectively. Retail sales of consumer goods for the year totaled RMB20,716.7 billion, representing an actual year-on-year growth of 12.1% eliminating the impact of inflation. The consumer price for the year showed a 2.6% year-on-year rise, down by 2.8 percentage points as compared with 2011.

Fast-moving Consumer Goods and Dairy Industry

Structural upgrade of products remained a key driver for the growth in the fast-moving consumer goods sector. Total sales of the sector grew by 16% comparing with 2011. The slowdown in the pace of growth was mainly due to difficult external economic conditions and fiercer market competition.

For the dairy industry, the government and society continued to reinforce regulated development through stringent supervision and media scrutiny. Driven by external environment and consumer demand, total sales of the dairy industry maintained steady growth. Meanwhile, product mix within the industry was further upgraded in response to the rising consumer demand for high-end dairy products. Furthermore, high priced and high value-added products grew at an accelerated rate. However, affected by the continuous rise in prices, the price of raw milk also increased as a result of the relatively fast growth of feeding costs.

According to AC Nielsen, Mengniu's liquid milk products captured 27.4% of the domestic liquid milk market share, maintaining its top position in the industry. Star brands such as *Milk Deluxe* (*特侖蘇*) also continued to lead the high-end market.

BUSINESS REVIEW

Action One – Quality System Reform

In 2012, by aligning its quality management system with the international market-leading counterparts, Mengniu reviewed and optimised its process including milk sources, production and sales, and set up a new quality and safety management structure. Firstly, Mengniu established a quality and safety administration centre, which is responsible for formulating quality systems, developing uniformed standards, and assessing and inspecting quality management work. In addition, Mengniu established three separate quality administration centres in milk sources, production, and sales and marketing, to manage quality and safety throughout the entire process. By establishing a comprehensive organisational structure, the quality and safety management duties and responsibilities of each department were more clearly defined and allocated, enabling effective coordination among departments and quality management across the entire production chain.

During the year, Mengniu devoted considerable resources in the quality and safety management system to enhance its overall quality management level. Important measures included engaging a quality assurance expert from the international fast-moving consumer goods industry, allocating more staff and equipment to different operational segments for quality assurance purposes and strengthening the training of staff to bolster their quality inspection skills.

These measures have laid a solid foundation for quality management within Mengniu. In 2013, Mengniu will further implement standardised quality and safety management and introduce more sophisticated internationalised inspection techniques into the production process through cooperation with Arla Foods. Mengniu will also encourage all staff to participate in quality management so that quality control can be brought into full play across the organisation.

To reinforce the commitment to quality, Mengniu will take concrete actions by caring and refining every detail with sincerity and practicality, to ensure it can satisfy its customers needs.

Action Two – Milk Source Enhancement

Mengniu continued to enhance its strength in milk sources by promoting scaled ranching and monitoring quality sources more strictly. Through provision of entrusted loans, raw milk prepayment, investment in large-scale ranches and construction of modernised ranch facilities, the proportion of Mengniu's milk sources provided by ranches and scaled farms further increased to 93%, a leading position within the industry.

To enhance the milk sources, Mengniu established two platforms in regard to ranch management, namely the Entrusted Management Centre and the Resource and Technology Integration Centre. The Entrusted Management Centre separates the ownership and management of Mengniu's collaborative ranches by introducing Mengniu's own professional team to manage and standardise the management standards of the ranches, and help increase their effectiveness and revenue, thereby ensure the safety of raw milk supply. The Resource and Technology Centre streamlines the workflow and reduces the operating costs by consolidating production materials including pasture, fodder, veterinary drugs and equipment, etc. In addition, Mengniu set up the Dairy Cattle University (奶牛大學) to consolidate domestic and international technical resources and enhance the management level of ranches in terms of yield rate per dairy cattle and somatic cell control, etc.

Meanwhile, Mengniu proceeded with eight self-built ranches in 2012. The design of the standardised ranch in cooperation with Arla Foods was also completed during the year. The project covers processes from forage grass planting to preliminary processing of milk, and was a combination of advanced, scientific, intelligent and environmentally-friendly international farming concepts with Mengniu's self-built ranch management. It will be served as the model ranch of milk source management of the Group.

Leveraging its position as a large scale dairy producer, Mengniu aims at facilitating the transformation of upstream industries to scaled ranching, so as to ensure reliable product quality for Mengniu, and contribute to the upgrade of dairy industry in China as well.

Action Three – International Strategic Collaboration

On 15 June 2012, Mengniu entered into a long-term strategic cooperation agreement with Arla Foods, an European dairy enterprise. Arla Foods became the second largest strategic shareholder of Mengniu by acquiring Mengniu's equity interest, and began to participate in its daily operations.

Mengniu and Arla Foods efficiently formulated a range of plans to expedite cooperation, which has been implemented in phase. Supported by the Ministry of Agriculture of the PRC and the Ministry of Food, Agriculture and Fisheries of the Kingdom of Denmark, and prepared over the course of several rounds of negotiation, the China-Denmark Milk Technology and Cooperation Centre ("China-Denmark Cooperation Centre") was officially established on 26 November 2012. Combining the resources of both parties, a professional team was set up to facilitate technical exchanges.

During the year, the China-Denmark Cooperation Centre completed the design of the standardised model ranch. The quality management system model of Arla Foods will also be applied to Mengniu's self-built ranches which are currently under construction. The China-Denmark Cooperation Centre introduced the Fourier Transform Infra Red spectrum method on fingerprint technology (指紋圖譜原奶檢測方法) to enhance the management of milk sources and the accuracy of raw milk testing. The China-Denmark Cooperation Centre also proactively pushed forward the "Dawn Scheme" (晨曦計劃). The first group of outstanding staff selected from each department will be sent to Denmark to study advanced dairy management and broaden their international horizon in 2013. The China-Denmark Cooperation Centre has also initiated several projects for cooperation and exchange over milk sources and quality inspection techniques, which will be further launched in 2013.

Moreover, premium dairy products including UHT milk, milk powder, cheese and butter produced by Arla Foods will also be brought to consumers in China through Mengniu's channels.

The collaboration between Mengniu and Arla Foods has gained full support from respective government departments of both countries. Mengniu believes that Arla Foods' 140-year long history and advanced industrial experience will be beneficial to the establishment of an international technical exchange platform between the two enterprises. At the same time, the partnership will open a window for Chinese dairy industry, so as to promote the development of the whole industry.

Action Four – Branding Strategy Reform

The vision of "New Mengniu" has been reconstructed with a brand concept focusing on "Quality" and "Happiness". Under this theme, the overall sub-brand structure was established, marking the birth of a brand-oriented vision driven by consumer need. Through the concept, Mengniu delivered the corporate vision of caring for the needs of consumers and bringing happiness to consumers by paying every bit of attention to every drop of raw milk.

In line with this concept, Mengniu has not only enhanced its product quality, but also actively launched a diversity of branding activities to deliver the brand promise of quality and happiness to its consumers. Mengniu has adopted a refreshing colour in the new packaging of its pure milk and basic functional milk products, and used the pattern of a drop of milk to demonstrate Mengniu's determination to change by "beginning from a drop" (從點滴做起). Mengniu held several interactive activities under the theme of "The New Mengniu Listens with Heart" (新蒙牛,心溝通) to present its corporate motto to the public sincerely and openly. Such activities included inviting internet opinion leaders and consumers to visit its production bases and communicate with Mengniu physically. Targeting major sports events, including the NBA Finals, the World Table Tennis Championships and the UEFA Euro football competitions, Mengniu launched a series of television advertisements under the theme of "Selection through Trust" (因為信賴,所以選擇) to connect the brand image with healthy and energetic sports stars. Mengniu was also designated as the Official Milk Products for Mongolian Athletes at the London 2012 Olympic Games (2012年倫敦奧運會蒙古運動員指定牛奶) by the General Administration of Sport of Mongolia (蒙古體育總局) and the Mongolian Foundation for the Promotion of the Olympic Games (蒙古奧林匹克發展基金會). In addition, Mengniu has been sponsoring China's space programme for nine consecutive years and took the opportunity of the successful launch of Shenzhou 9 Spacecraft (神舟九號) to promote quality of its products.

Mengniu reorganised the overall structure of its sub-brands by eliminating certain brands and formulating the strategy of focusing its resources on selected key brands. Mengniu regrouped the sub-brands under four categories in light of consumer need and market trends, namely daily nutrition, leisure nutrition, professional nutrition and luxurious nutrition, and set up brand centres to manage these diversified brand categories. Each brand centre implemented tailor-made branding strategies with different directions and focuses.

In the future, Mengniu will continue to build its brand under the two main themes of "Quality" and "Happiness", and communicate with consumers and stakeholders more positively and openly. In order to gradually enhance consumers' confidence in the brand and deliver positive energy to the consumers, Mengniu will also carry out more interactive thematic campaigns to meet consumer needs.

Action Five – Sales Channel Consolidation

During the year, Mengniu embarked on comprehensive consolidation of its sales channel aiming at taking more controls over sales terminals and increasing overall efficiency. At present, Mengniu has finished consolidation on three aspects.

First, Mengniu has reduced layers between sales management headquarters and points-of-sale, which greatly enhanced efficiency of internal communication and approval process and shortened the response time. The decision-making point was also shifted from the headquarters to the points-of-sale to better cater for the demand of the distributors and increase overall operational efficiency with a view to facilitating business development.

Mengniu integrated marketing and sales resources of UHT milk, chilled products and ice cream business, and set up centralised platforms based on key functions. Sales management and channel marketing platforms were built for the purpose of sharing marketing resources and enhancing the utilisation efficiency of resources.

Mengniu has formulated workflow and inspection standard to standardise the management process of all points-of-sale so that front-end sales will become more controllable with professional and standardised operation norms.

With regard to channel promotion, Mengniu has adjusted its branding strategies to focus on key brands with an aim to boost their sales performance and channel penetration.

The integration of the sales system is still in progress. In the future, Mengniu intends to establish a standardised and informationalised operation model and perfect its system through resource consolidation.

Action Six – Information System Upgrade

With an aim of establishing an informationalised operation management system that can quickly adapt to operational changes and meet internal control requirements, Mengniu has launched a project to upgrade the information system in accordance with the industry standards during the year. As a result, Mengniu has successfully standardised both the human resources management system and the financial budget management system.

Besides, Mengniu has optimised the transportation system by deploying base stations and GPS systems, which not only enabled control of refrigeration and tracking of transportation vehicles, but also shortened transportation distance, thereby lowered logistics costs and slowed down the melting of chilled products.

FINANCIAL REVIEW

The food quality and safety incidents during the year adversely affected consumer confidence and sales to a certain extent. In face of the severe challenges, Mengniu took the initiative to identify its shortcomings and perfect its quality management system. By devoting greater efforts to marketing activities and enhancing communications with consumers, Mengniu has been regaining the lost market share and restoring its brand credibility gradually. During the year under review, the revenue of the Group amounted to RMB36,080.4 million (2011: RMB37,387.8 million). Profit attributable to owners of the Company was RMB1,257.1 million (2011: RMB1,589.3 million). Basic earnings per share were RMB0.711 (2011: RMB0.908).

Revenue

Revenue for 2012 amounted to RMB36,080.4 million, representing a decline of 3.5% as compared with the revenue of RMB37,387.8 million in 2011. The decrease was mainly attributable to the drop in sales volume, partially offset by the price increase as a result of the optimisation of product mix. Meanwhile, revenue of key brands including *Milk Deluxe (特侖蘇)*, *Champion (冠益乳)*, *Future Star Milk (未來星)* and *Fruit Milk Drink (真果粒)* has maintained fast growth since their launching into the market, all of which recorded double-digit increase in 2012, while *Youyi C (優益C)* enjoyed three-digit growth during the year.

Gross Profit

Gross profit of the Group for the year ended 31 December 2012 amounted to RMB9,054.6 million (2011: RMB9,592.2 million), a decrease of 5.6% as compared with 2011. During the year under review, the Group continued to enhance the control over product quality and restore consumer confidence in its brand and dairy products by increasing the proportion of milk sources purchased from ranches and scaled farms, resulting in a rise in the cost of raw milk. Meanwhile, the Group devoted more resources to adding quality inspection staff and deploying more inspection equipment. As a result, the overall gross profit margin for the year was adjusted to 25.1% (2011: 25.7%).

To cope with the continued increase in raw milk and quality control costs, the Group enhanced operational efficiency through optimising the internal production and operation management flow, thereby lowered the production cost. The Group also reduced the procurement cost of raw and auxiliary materials and equipment by rationalising and optimising the deployment of auxiliary material suppliers and equipment suppliers. In addition, the Group optimised logistics and reduced transportation cost through effective production, sales and distribution arrangements and flexible deployment of conveyances.

Operating Expenses

The operating expenses of the Group for 2012 were RMB7,817.3 million (2011: RMB7,992 million), accounting for 21.7% of the Group's revenue (2011: 21.4%). Among which, the selling and distribution expenses for the year decreased by 4% compared with the previous year to approximately RMB6,425.8 million (2011: RMB6,694.7 million), representing 17.8% of the Group's revenue (2011: 17.9%). Starting from the second half of 2012, the Group modified its sales channels strategies in light of the diversity of the market, and optimised its brand portfolio and distribution channels, in order to make better and more flexible use of marketing and promotional resources. Accordingly, the relevant advertising and promotion expenses were reduced and the percentage of advertising and promotion expenses to revenue for the year slightly declined to 6.4% (2011: 7.6%).

The Group not only devoted more resources to the quality management system, but also recruited renowned professional agencies to optimise its internal structure to increase the management efficiency. This lead to a slight increase in the administrative and other operating expenses to RMB1,391.5 million (2011: RMB1,297.3 million), and its percentage to the Group's revenue has increased to 3.9% (2011: 3.5%).

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

Owing to the decrease in turnover year-on-year and the increase in costs, the Group's earnings before interest, taxes, depreciation and amortisation (EBITDA) was RMB2,525.0 million (2011: RMB2,812.1 million). EBITDA margin declined to 7.0% (2011: 7.5%).

Profit attributable to owners of the Company was RMB1,257.1 million (2011: RMB1,589.3 million). Net profit margin was 3.5% (2011: 4.3%) for the year.

Income Tax Expenses

The effective income tax rate of the Group for 2012 was 14.6%, up by 1.2 percentage points as compared with 2011, primarily due to the utilisation amount of the tax credit limit related to purchases of domestic equipment in 2012 was less than that in 2011.

Capital Expenditure

As at the end of 2012, the total capital expenditure of the Group amounted to RMB2,266.5 million, generally consistent with that of 2011. The capital expenditure for 2012 was mainly used for constructing production plants and equipments and enhancing milk sources, etc. Its investment in the enhancement of milk sources reached RMB193.6 million, demonstrating the Group's determination and efforts to enhance the safety of milk source.

Capital Structure, Working Capital and Financial Resources

The Group's net cash inflow from operating activities amounted to RMB2,006.9 million (2011: RMB2,520.1 million). The decrease in net cash inflow was mainly due to the decrease in profit. Net cash balances (cash and bank balances net of total bank loans) of the Group reached RMB5,204.6 million as at 31 December 2012 (31 December 2011: RMB5,985.5 million, indicating a strong financial position and healthy cash flow of the Group.

The outstanding bank loans of the Group amounted to RMB573.8 million (31 December 2011: RMB537.5 million), which was repayable within one year. Furthermore, the bank loans totaling RMB93.4 million (31 December 2011: RMB167.1 million) were fixed interest-bearing loans.

The total equity of the Group was RMB13,071.8 million as at 31 December 2012 (31 December 2011: RMB12,048.8 million), and the debt-to-equity ratio (total bank loans over total equity) of the Group was 4.4% (31 December 2011: 4.5%).

The Group's finance costs amounted to RMB41.75 million (2011: RMB60.94 million), representing approximately 0.1% of the Group's revenue (2011: 0.2%).

PRODUCTS

To meet the ever-increasing consumer needs for natural dairy products, Mengniu concentrated on category expansion along with research and development of pure natural and additive-free products, in addition to its continuous effort in developing high-end products catering for diversified market segments. Mengniu will sustainably exert efforts to develop a safe, premium and healthy product structure.

Mengniu's business is mainly divided into three categories, which are liquid milk, ice cream and other dairy products. The performance and development during the year are highlighted as follows:

Product category	**Financial performance**	**Highlights**
Liquid milk	Revenue amounted to RMB32,337.0 million (2011: RMB33,701.2 million), accounting for 89.6% (2011: 90.1%) of the total revenue of Mengniu.	
UHT milk	Revenue amounted to RMB19,706.2 million (2011: RMB20,837.6 million), accounting for 60.9% (2011: 61.8%) of the liquid milk segment revenue.	– To match Mengniu's new brand concept, new package has been used for basic functional products, such as *Pure Milk* (*純牛奶*) and *High Calcium Milk* (*高鈣牛奶*) – *Milk Deluxe* (*特侖蘇*) remained top seller. Promotional activities were carried out at the experience stores to enhance communication with consumers and build a high-end brand image – Launched functional products *Awakening Youth Guli Milk* (*煥輕骨力牛奶*) and *Awakening Youth Shuhuo Milk* (*煥輕舒活牛奶*) which help to improve the health of the bones and the cardiovascular system for the middle-aged and the elderly – Expanded the *Future Star* (*未來星*) product category by launching *Future Star Kid Milk* (*未來星小小兒童成長牛奶*) and *Future Star Milk-Nutrition Balance* (*未來星兒童成長牛奶營養均衡型*) – Developed the innovative brand *Latte* (*奶特*) with several flavours including chocolate, vanilla and banana to bring leisure nutrition to consumers – *Arla Foods Pure Milk (Arla Foods 純牛奶*), which is imported from Europe, was launched in China

Product category	Financial performance	Highlights
Milk beverages	Revenue amounted to RMB8,038.8 million (2011: RMB8,309.6 million), accounting for 24.9% (2011: 24.7%) of the liquid milk segment revenue.	– Focused on the chilled product *Youyi C* (*優益C*) by strengthening interactive experience and promotion under the theme of "Intestinal Exercises Help to Stay Young" (腸活動,常年輕) – Continued to expand the market coverage of *Suan Suan Ru* (*酸酸乳*) and launched the campaign "Mengniu Suan Suan Ru Superstar Dream Academy" (蒙牛酸酸乳巨星夢想學院) to enhance interaction with young consumers – Maintained the market share by expanding the product category of *Fruit Milk Drink* (*真果粒*) – The PET-packaged milk beverages *Peanut Milk* (*花生奶*) and *Oat Milk* (*燕麥奶*) are launched into the market
Yogurt	Revenue amounted to RMB4,592 million (2011: RMB4,554 million), accounting for 14.2% (2011: 13.5%) of the liquid milk segment revenue.	– *Champion* (*冠益乳*) remained top seller – New product *Truly Pure Yogurt* (*純甄*), an additive-free pure natural healthy yogurt, was launched into the market – *Future Star Kid Yogurt* (*未來星兒童成長酸牛奶*) was launched under *Future Star* (*未來星*) to bring brand synergy into full play

Product category	Financial performance	Highlights
Ice cream	Revenue amounted to RMB3,171.5 million (2011: RMB3,258.6 million), accounting for 8.8% (2011: 8.7%) of the revenue of Mengniu.	– *Deluxe* (*蒂蘭聖雪*) launched a pure natural high-end new product named *Gelato*, which is made of pure natural materials using traditional Italian techniques – Certain products under *Ice+ (冰+)* use natural mango juice imported from India, and are free from artificial pigment, which give an original flavour
Other dairy products	Revenue amounted to RMB571.9 million (2011: RMB428 million), accounting for 1.6% (2011: 1.2%) of the revenue of Mengniu.	– The sales coverage of milk powder was expanded. The "Trustworthy Milk Powder" (放心乳粉) project pioneered a pilot cooperation project with the Administration of Quality and Technology Supervision of Inner Mongolia – Product lines were added to the cheese segment; the sales of new products such as *Cheese Baby* (*酪趣貝*) and *European Yogurt Cheese* (*歐式酸奶酪*) increased

Apart from the Mainland China market, Mengniu's products are also being sold in Hong Kong, Macau, Singapore and Mongolia. During the year under review, despite the slowdown in overall sales growth due to the food safety incidents, the markets still witnessed stable performance through targeted marketing and sales strategies.

In the future, Mengniu will continue to monitor the consumer demand and market trends closely, and seize the market opportunity in chilled products, organic products and infant milk formula. Mengniu will step up its efforts on developing potential new operations. Meanwhile, Mengniu will continue to develop and expand high-end brands and diversify product portfolio to increase the profitability of each business segment.

PRODUCTION

In response to market demand, Mengniu's annual production capacity reached 7.58 million tons by December 2012 (December 2011: 7.05 million tons).

SOCIAL RESPONSIBILITY

With its strong commitment to social responsibility, Mengniu has not only actively participated in various community activities, but also attached great importance to environment protection and sustainable development of ecology. In 2012, Mengniu set up the Centre of Health, Safety and Environmental Protection to better perform social responsibilities.

Public Welfare Activities

Mengniu launched the campaign of "Looking for the Most Beautiful Teachers in Rural Areas" (尋找最美鄉村教師) to support teachers in rural areas. Mengniu established cooperation with the World Wide Fund for Nature (WWF) to promote the "Earth Hour" (地球一小時) activity and went on with the "Charity Well Project" (愛心井項目) to help relieve the water shortage problem in remote areas. Mengniu also founded an education fund to support the move of "Dream Realisation" under "Project Hope" in Hainan Province (海南省希望工程圓夢行動), spreading happiness within the society.

Upstream Ecosystem Building

Mengniu has always been taking initiatives in ecosystem building. During the year, the Group has set up a wholly-owned subsidiary Inner Mongolia Fuyuan Farming Co., Ltd. (內蒙古富源牧業有限責任公司) to offer professional services to dairy farm management. To resolve potential pollutions imposed by manure, biogas slurry, biogas residue and sewage, Mengniu applied advanced technologies and equipment to minimise negative impact on the surrounding environment, and at the same time transformed those excessive energy and materials from ranch waste into renewable resources such as electricity and organic fertilisers, so as to achieve recycling use of resources and balanced ecology development.

Water Resource Preservation

Mengniu pays great attention to water resource conservation, and also devotes considerable resources to build and improve water ecology environment. During the year, Mengniu set up 28 sewage disposal plants (with an annual treatment capacity of 15 million tons) under real-time supervision. The processed water complied with the national discharge standards and was reused for afforestation, road cleaning and toilet flushing in the plants. Besides, Mengniu managed to rebuild and restore rivers around the headquarters so as to improve the functions of floods and droughts prevention, wind-shielding and sand stabilisation, water preservation (with a reserving capacity of about 60,000 tons of water) to optimise the ecosystem. The renovation added an extra 80,000 square metres of greenbelt. Through technological upgrade and elimination of energy consuming equipment, Mengniu managed to save a total of 350,000 tons of water annually.

Low Carbon Value Chain and Green Innovations

Mengniu has greatly reduced carbon emissions and improved efficiency in its logistics throughout the country by deploying the strategy of "selling to where it is produced and producing at where it is sold" (產地銷、銷地產). In addition, Mengniu has achieved satisfactory improvements on energy savings by means of implementing scientific design and optimising the combination of functional layout, lighting system and power facilities within workshops. With regard to the supply chain, Mengniu has worked closely with its suppliers to identify and use FSC-certified (a global forestry certification system) packaging materials. Mengniu has also established a green supply chain together with its upstream partners through innovative measures such as producing environmentally-friendly stools made from discarded packaging materials.

HUMAN RESOURCES

By 31 December 2012, the Group had approximately 28,000 employees in Mainland China and Hong Kong. Total staff costs for the year, excluding directors' and chief executives' remuneration, were approximately RMB1,930.2 million (2011: RMB1,745.1 million).

Mengniu has recruited more senior management talents from international fast-moving consumer goods companies. Management experts have been employed particularly in areas of quality control, brand and sales, thus adding new expertise to power the strategic development of Mengniu.

Mengniu draws great emphasis on internal staff cultivation while bringing in professional expertise from the outside. To develop and reserve more outstanding talent for long term development, Mengniu launched the "Dawn Scheme" (晨曦計劃), a talent cultivation program allowing outstanding staff to study advanced management and techniques at Arla Foods in Denmark every year.

PROSPECTS

Stepping into 2013, there is still great development potential and room for improvement for the dairy industry, in view of China's continuous urbanisation and the ever-increasing spending power and health awareness of consumers. Under the government's stringent supervision, the dairy industry would maintain a healthy growth along with a more concentrated industry trend. As a leader in China's dairy market, Mengniu is continuing to lead the healthy development of the industry by proactively seizing industry opportunities and leveraging its strength.

Organisational restructuring in 2012 has prepared Mengniu for its overall enhancement in the coming years. By adhering to principles of strategy orientation, market-driven business, transformational upgrade and shared growth, Mengniu has developed a new Five-Year Strategic Plan. In the future, Mengniu will continue to enhance its cross-departmental collaboration, strengthen team cohesiveness and management capability by integrating the new and existing culture. Meanwhile, Mengniu will continue to carry forward the upgrade of information system and rebuild the core operating system in accordance with the benchmark software platform adopted by the fast-moving consumer goods industry. This will standardise the management system of purchase, sales and inventory, enabling Mengniu to respond quickly to market trends and market feedback. At the same time, Mengniu will continue to make effort on research and development to develop new star brands and products that meet market demand, product mix optimisation and sales channel expansion, in order to achieve a balanced development of Mengniu.

2013 will continue to be a challenging year. Mengniu will start afresh and implement measures under the new Five-Year Strategic Plan. With an aim to achieve the transformation into "New Mengniu", Mengniu will sustainably strengthen milk sources and quality control, rationalise brand structure, enhance brand image, adjust product portfolio based on market demand and enhance the international management level. Mengniu is committed to becoming a dairy enterprise that delivers products of the best quality and in the most professional and devoted manner in China, and bringing happiness to consumers.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (effective until 31 March 2012) during the period from 1 January 2012 to 31 March 2012 (the "Old Code") and the Corporate Governance Code (effective from 1 April 2012) during the period from 1 April 2012 to 31 December 2012 (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code of corporate governance practices.

Throughout the year, the 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 Old Code and the CG Code, except that nine Directors (1 executive Director (also the Chief Executive Officer), 6 non-executive Directors (including the Chairman) and 2 independent non-executive Directors) were unable to attend the annual general meeting of the Company (the "AGM") held on 15 June 2012 due to unavoidable business engagements and other commitments outside of Hong Kong.

SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. The Directors have confirmed, following the specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2012.

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 2012.

AUDIT COMMITTEE

The Audit Committee has reviewed with the Company's management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters, including the review of the Group's audited financial statements for the year ended 31 December 2012.

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 2012 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 RMB0.16 (2011: RMB0.198) per ordinary share for the year ended 31 December 2012. Upon shareholders' approval at the forthcoming AGM, the proposed final dividend will be paid on or about Tuesday, 25 June 2013 to shareholders whose names appear on the register of members of the Company on Friday, 14 June 2013.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed (i) from Wednesday, 5 June 2013 to Friday, 7 June 2013, both days inclusive, for determining shareholders' eligibility to attend and vote at the AGM, and (ii) on Friday, 14 June 2013, 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, 7 June 2013, 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, 4 June 2013.

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 Thursday, 13 June 2013.

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 are Ms. Sun Yiping, Mr. Bai Ying, Mr. Wu Jingshui and Mr. Ding Sheng. The Non-executive Directors are Mr. Ning Gaoning, Mr. Yu Xubo, Mr. Niu Gensheng, Mr. Ma Jianping, Mr. Tim Ørting Jørgensen, Mr. Finn S. Hansen and Ms. Liu Ding. The Independent Non-executive Directors are Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Liu Fuchun, Mr. Zhang Xiaoya, Mr. Xie Tao and Mr. Andrew Y. Yan.

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
Sun Yiping
Chief Executive Officer

Hong Kong, 26 March 2013