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 2014

HIGHLIGHTS

- Mengniu has continued to integrate strategic resources, improve operational efficiency, optimize product portfolio and launch new marketing initiatives and these efforts have boosted its revenue and profit attributable to owners of the Company by 15.4% and 44.1% respectively.
- Mengniu, Danone Asia and Yashili signed a share subscription agreement, under which Danone Asia acquired 25% equity interest in Yashili and became its second-largest shareholder. Upon completion of the subscription in 2015, Mengniu still holds 51% equity interest in Yashili and remains as its controlling shareholder. The share subscription is set to strengthen their cooperation in the infant milk formula segment.
- Mengniu has cooperated with WhiteWave from the US to enter the high-end plant-based nutrition product sector by launching the plant-based protein beverages under the *Silk* brand. The collaboration will optimize its business footprint and make it an innovation-led food company offering nutrition and health.
- Launching the branding campaign "A Drop of Goodness", Mengniu will not only produce quality milk, but also deliver care through its products, thus rebuilding its brand value.
- Data from Nielsen Company reveals that Mengniu's liquid milk retained its top market share. With a focus on key products, Mengniu also continuously introduces new products across different categories. *Milk Deluxe* continuously upgraded its products and retained its leadership in market share within the high-end pure milk market while star products such as *Milk Deluxe*, *Just Yoghurt*, *Champion* and *Yoyi C* were also well-received by the market with substantial growth in sales.
- Milk sources provided by ranches and scaled farms accounted for 96% of Mengniu's total, maintaining the top spot in the industry.

* *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 2014, together with the comparative amounts.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CONTINUING OPERATIONS			
REVENUE	4	**50,049,243**	43,356,908
Cost of sales		**(34,615,630)**	(31,659,663)
GROSS PROFIT		**15,433,613**	11,697,245
Other income and gains	4	**449,074**	288,633
Selling and distribution expenses		**(10,563,695)**	(8,168,238)
Administrative expenses		**(1,941,237)**	(1,605,791)
Other expenses	5	**(713,207)**	(360,125)
		2,664,548	1,851,724
Interest income		**547,638**	359,295
Finance costs	7	**(339,910)**	(160,377)
Share of profits of associates		**277,732**	153,861
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	**3,150,008**	2,204,503
Income tax expense	8	**(459,292)**	(366,713)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**2,690,716**	1,837,790
DISCONTINUED OPERATIONS			
Profit/(loss) for the year from discontinued operations	9	**(63)**	24,198
PROFIT FOR THE YEAR		**2,690,653**	1,861,988
Attributable to:			
Owners of the Company		**2,350,803**	1,630,925
Non-controlling interests		**339,850**	231,063
		2,690,653	1,861,988
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (EXPRESSED IN RMB PER SHARE)	11		
Basic			
– For profit for the year		**1.210**	0.904
– For profit from continuing operations		**1.210**	0.891
Diluted			
– For profit for the year		**1.203**	0.896
– For profit from continuing operations		**1.203**	0.883

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

	Notes	31 December 2014 RMB'000	31 December 2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**9,667,308**	9,246,109
Construction in progress		**2,030,097**	1,275,875
Investment properties		**103,814**	115,816
Land use rights		**1,050,567**	1,048,813
Goodwill		**5,837,501**	5,694,938
Other intangible assets		**1,620,375**	1,612,293
Investments in associates		**3,840,594**	2,843,155
Deferred tax assets		**379,910**	155,739
Biological assets		**160,271**	36,707
Non-current financial assets		**1,894,059**	1,699,666
Long term prepayments		**163,704**	289,145
		26,748,200	24,018,256
CURRENT ASSETS			
Other current financial assets		**8,338,024**	1,744,747
Derivative financial instruments		**17,455**	–
Inventories		**4,342,292**	2,577,078
Trade and bills receivables	*12*	**1,148,186**	754,265
Prepayments, deposits and other receivables		**1,573,053**	2,485,297
Pledged deposits		**255,589**	561,709
Cash and bank balances		**4,649,560**	7,101,580
		20,324,159	15,224,676
Assets of disposal groups classified as held for sale	*9*	**8,433**	1,096,464
		20,332,592	16,321,140
CURRENT LIABILITIES			
Trade and bills payables	*13*	**4,991,847**	4,761,298
Other payables and accruals		**4,554,420**	4,354,840
Interest-bearing bank and other borrowings		**4,360,618**	8,461,506
Other loans		**118,365**	92,565
Derivative financial instruments		**4,506**	–
Deferred income		**23,537**	19,389
Income tax payable		**297,280**	170,483
		14,350,573	17,860,081
Liabilities directly associated with the assets classified as held for sale	*9*	**572**	203,250
		14,351,145	18,063,331
NET CURRENT ASSETS/(LIABILITIES)		**5,981,447**	(1,742,191)
TOTAL ASSETS LESS CURRENT LIABILITIES		**32,729,647**	22,276,065

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 31 December 2014

	31 December 2014 *RMB'000*	31 December 2013 *RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**5,464,050**	3,235,535
Long term payables	**63,812**	100,678
Deferred income	**270,477**	200,326
Deferred tax liabilities	**92,076**	64,429
Derivative financial instruments	**7,618**	–
Other non-current financial liabilities	**2,338,741**	663,959
	8,236,774	4,264,927
NET ASSETS	**24,492,873**	18,011,138
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**196,246**	186,476
Treasury shares held under share award scheme	**(489,075)**	(394,121)
Other reserves	**14,963,385**	10,628,142
Retained earnings	**6,818,844**	4,940,421
	21,489,400	15,360,918
Non-controlling interests	**3,003,473**	2,650,220
TOTAL EQUITY	**24,492,873**	18,011,138

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"). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements have been prepared on a historical cost basis except for share options, certain financial assets, biological assets and derivative financial instruments which have been measured at fair value. 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 2014. 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.

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 new and revised IFRSs for the first time for the current year's financial statements.

IFRS 9 (2009)	*Financial Instruments*[2]
IFRS 9 (2013)	*Financial Instruments*[3]
Amendments to IFRS 10, IFRS 12 and IAS 27	*Investment Entities*
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*[2]
IFRIC – Int 21	*Levies*
Amendment to IFRS 2 included in *Annual Improvements 2010-2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to IFRS 3 included in *Annual Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to IFRS 13 included in *Annual Improvements 2010-2012 Cycle*	*Short-term Receivables and Paybles*
Amendment to IFRS 1 included in *Annual Improvements 2011-2013 Cycle*	*Meaning of Effective IFRSs*

[1] Effective from 1 July 2014
[2] Initial application on 1 January 2014
[3] Initial application on 1 July 2014

Other than as further explained below regarding the impact of early adoption of IFRS 9, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

The Group has elected to early adopt IFRS 9 (2009) since 1 January 2014 under the transitional provisions of IFRS 9 (2009).

The chapters of IFRS 9 issued in November 2009 is the first part of "phase 1: classification and measurement of financial assets and financial liabilities" of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, these chapters require all financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

As a result of the early application of IFRS 9 (2009), the Group has changed the accounting policy retrospectively with respect to the classification and measurement of financial assets. Instead of classifying financial assets into four categories, the Group has classified financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A financial asset is initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss is expensed in the statement of profit or loss. A financial asset is subsequently measured at amortised cost or fair value.

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

The classification and measurement category for each class of financial assets at the date of initial application were as follows:

		Measurement category		Carrying amount		
	Notes	**Original (IAS 39)**	**New (IFRS 9)**	**Original (IAS 39)** *RMB'000*	**New (IFRS 9)** *RMB'000*	**Difference**
Financial asset						
Other financial assets						
Hong Kong listed equity investments	*(a)*	Available-for-sale at fair value	Financial assets at fair value through other comprehensive income	302,049	302,049	–
Unlisted equity investments	*(a)*	Available-for-sale at cost	Financial assets at fair value through other comprehensive income	98,531	98,531	–
Unlisted equity investments	*(b)*	Available-for-sale at cost	Financial assets at fair value through profit or loss	41,066	41,066	–
Long term unit trust investments due within one year	*(c)*	Available-for-sale at cost	Financial assets at fair value through profit or loss	130,258	130,258	–
Short term unit trust investments	*(c)*	Available-for-sale at cost	Financial assets at fair value through profit or loss	220,000	220,000	–
Short term investment deposits	*(c)*	Loans and receivables	Financial assets at fair value through profit or loss	1,344,508	1,344,508	–
Long term entrusted loans	*(d)*	Loans and receivables	Financial assets at amortised cost	24,472	24,472	–
Long term entrusted loans due within one year	*(d)*	Loans and receivables	Financial assets at amortised cost	49,981	49,981	–
Long term pledged deposits	*(d)*	Loans and receivables	Financial assets at amortised cost	150,000	150,000	–
Long term time deposits	*(d)*	Loans and receivables	Financial assets at amortised cost	1,083,548	1,083,548	–
				3,444,413	3,444,413	–
Trade and bills receivables	*(d)*	Loans and receivables	Financial assets at amortised cost	754,265	754,265	–
Financial assets included in prepayments, deposits and other receivables	*(d)*	Loans and receivables	Financial assets at amortised cost	337,798	337,798	–
Pledged deposits	*(d)*	Loans and receivables	Financial assets at amortised cost	561,709	561,709	–
Cash and bank balances	*(d)*	Loans and receivables	Financial assets at amortised cost	7,101,580	7,101,580	–
Total financial assets				**12,199,765**	**12,199,765**	**–**

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

(a) At the date of initial application, the Group designates its equity investments in China Shengmu Organic Milk Limited and YuanShengTai Dairy Farm Limited (which were previously classified as available-for-sale financial assets under IAS 39 and not held for trading) as measured at fair value through other comprehensive income.

The adoption of IFRS 9 (2009) on the accounting for these equity investments does not have an effect on the comparatives presented given that there was no impairment or disposal of these investments in the prior year. Other than the dividend income, the subsequent changes in the fair values of these investments shall be recognised in other comprehensive income and cannot be subsequently recycled to profit or loss.

(b) Except for the above-mentioned equity investments, at the date of initial application, all equity investments which were previously classified as available-for-sale financial assets under IAS 39 and not held for trading are reclassified as at fair value through profit or loss. The adoption of IFRS 9 (2009) on these financial assets has had no material financial impact on the financial position of the Group given that the costs of these investments approximate their fair values.

(c) At the date of initial application, the Group's unit trust investments (which were previously classified as available-for-sale investments under IAS 39) and short term investment deposits (which were previously classified as loans and receivables under IAS 39) have been reclassified as financial assets at fair value through profit or loss. The adoption of IFRS 9 (2009) on these financial assets has had no material financial impact on the financial position or performance of the Group given that the terms of the investments are relatively short.

(d) Other financial assets continue to be measured at amortised cost upon the initial application of IFRS 9 (2009).

On 1 July 2014, the Group has early adopted IFRS 9 (2013). Based on the transitional provisions of IFRS 9 (2013), the application of this version of IFRS 9 has had no impact on the classification and measurement of financial assets. The application of IFRS 9 (2013) on 1 July 2014 also has had no impact on the Group's classification and measurement of financial liabilities, and hedge accounting given that the Group did not have any hedging transaction before 1 July 2014.

Except for IFRS 9 (2009) and IFRS 9 (2013), the Group has not early adopted any standard, interpretation or amendment that has been issued but not yet effective.

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 segment – manufacture and distribution of milk powder; and

- Other products 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, dividend income, 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 2014

	Liquid milk products *RMB'000*	Ice cream products *RMB'000*	Milk powder products *RMB'000*	Other products *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 discontinued operations					**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 discontinued operations					**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*	**Other products** *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	**365,006**	**8,439**	**2,555**	**2,281**	**378,281**
Other non-cash expenses	**(20,253)**	**(1,847)**	**–**	**–**	**(22,100)**
Unallocated amounts					**194,599**
Total non-cash expenses					**550,780**

* Capital expenditure consists of cash paid for the purchase of property, plant and equipment, construction in progress, investment properties, intangible assets, land use rights, biological assets, and for the acquisition of subsidiaries.

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

Year ended 31 December 2013

	Liquid milk products *RMB'000*	Ice cream products *RMB'000*	Milk powder products *RMB'000*	Other products *RMB'000*	Total *RMB'000*
Segment revenue:					
Sales to external customers	37,902,833	3,023,370	2,177,251	253,454	43,356,908
Intersegment sales	281,572	40,549	38,829	43,066	404,016
	38,184,405	3,063,919	2,216,080	296,520	43,760,924
Reconciliation:					
Elimination of intersegment sales					(404,016)
Revenue from continuing operations					43,356,908
Segment results	2,350,741	51,866	95,413	(22,796)	2,475,224
Reconciliation:					
Interest income					359,295
Finance costs					(160,377)
Share of profits of associates					153,861
Unallocated corporate expenses					(623,500)
Profit before tax from continuing operations					2,204,503
Income tax expense					(366,713)
Profit for the year from continuing operations					1,837,790
Segment assets	19,362,089	1,536,988	11,861,065	474,480	33,234,622
Reconciliation:					
Elimination of intersegment receivables					(8,618,415)
Unallocated corporate assets					14,626,725
Assets related to discontinued operations					1,096,464
Total assets					40,339,396
Segment liabilities	15,102,984	1,251,766	2,051,448	482,434	18,888,632
Reconciliation:					
Elimination of intersegment payables					(8,618,415)
Unallocated corporate liabilities					11,854,791
Liabilities related to discontinued operations					203,250
Total liabilities					22,328,258

3. OPERATING SEGMENT INFORMATION *(continued)*

Year ended 31 December 2013

	Liquid milk products *RMB'000*	Ice cream products *RMB'000*	Milk powder products *RMB'000*	Other products *RMB'000*	Total *RMB'000*
Other segment information:					
Depreciation and amortisation	961,248	112,220	92,535	6,307	1,172,310
Unallocated amounts					45,272
Total depreciation and amortisation					1,217,582
Capital expenditure	4,547,984	338,550	7,280,321	12,539	12,179,394
Unallocated amounts					417,135
Total capital expenditure*					12,596,529
Impairment losses recognised in the consolidated statement of profit or loss	79,750	10,431	1,477	239	91,897
Other non-cash expenses	15,322	3,755	–	–	19,077
Unallocated amounts					184,413
Total non-cash expenses					295,387

* Capital expenditure consists of cash paid for the purchase of property, plant and equipment, construction in progress, investment properties, intangible assets, land use rights, biological assets, and for the acquisition of associates and subsidiaries.

Geographical information

a. *Revenue from external customers*

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

b. *Non-current assets*

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

Information about a major customer

There is no single customer contributing over 10% of the Group's revenue.

4. REVENUE, OTHER INCOME AND GAINS

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

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

	2014	2013
	RMB'000	*RMB'000*
Revenue:		
Sale of goods	**50,049,243**	43,356,908
Other income and gains:		
Government grants related to		
– Assets other than biological assets	**20,489**	19,385
– Income and biological assets	**151,031**	71,775
Gain on deemed disposal of a subsidiary	**94,903**	–
Gain on deemed disposal of partial interests in an associate	**22,916**	–
Gain on disposal of subsidiaries	**13,875**	–
Foreign exchange gains, net	**–**	155,147
Unrealised gain on forward currency contracts	**17,455**	–
Gross rental income	**43,318**	–
Others	**85,087**	42,326
	449,074	288,633
	50,498,317	43,645,541

5. OTHER EXPENSES

	2014	2013
	RMB'000	*RMB'000*
Donation	**14,203**	18,634
Loss on disposal of items of property, plant and equipment	**22,814**	17,496
Write-down of inventories to net realisable value	**287,779**	277
Provision for property, plant and equipment	**1,551**	9,162
Provision for trade receivables and other receivables	**88,951**	81,934
Educational surcharges and city construction tax	**214,295**	194,886
Foreign exchange losses, net	**37,986**	–
Others	**45,628**	37,736
	713,207	360,125

6. PROFIT BEFORE TAX

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

	2014	2013
	RMB'000	*RMB'000*
Cost of inventories sold	**34,612,864**	31,656,106
Realised and unrealised fair value losses of white sugar commodity futures contracts, net	**2,766**	3,557
Cost of sales	**34,615,630**	31,659,663
Employee benefit expense (including directors' and chief executive's remuneration)		
– Wages, salaries, housing benefits and other allowances	**2,863,833**	2,350,027
– Retirement benefit contributions	**271,609**	240,100
– Share-based payment expense	**(46,935)**	52,382
– Share award scheme expense	**219,434**	151,108
	3,307,941	2,793,617
Depreciation of items of property, plant and equipment	**1,294,922**	1,178,923
Depreciation of investment properties	**4,258**	1,815
Amortisation of land use rights	**25,264**	21,748
Amortisation of other intangible assets	**17,272**	15,096
Research and development costs – current year expenditure	**66,975**	57,007
Provision for trade receivables and other receivables	**88,951**	81,934
Outsourcing expense	**442,298**	318,127
Minimum lease payments under operating leases on buildings	**252,368**	156,488
Display space leasing fees	**599,450**	595,998
Auditors' remuneration	**4,640**	4,440

7. FINANCE COSTS

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

	2014	2013
	RMB'000	*RMB'000*
Interest on long term payables	**8,943**	11,659
Interest on bank loans wholly repayable within five years	**211,338**	123,114
Interest on US$500,000,000 3.50% bond due 2018	**106,871**	10,392
Increase in discounted amounts of contingent consideration arising from the passage of time	**10,279**	15,212
Unrealised loss on interest rate forward contracts	**2,479**	–
	339,910	160,377

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 treatment available to twenty-four (2013: twenty-one) of the Group's subsidiaries, the entities within the Group are subject to the PRC corporate income tax ("CIT") at a rate of 25% (2013: 25%) on the taxable income as reported in their statutory accounts which are prepared in accordance with the PRC accounting standards and financial regulations.

	2014	2013
	RMB'000	*RMB'000*
Current income tax		
Current charge for the year	**681,915**	385,903
Adjustments recognised in the year for current tax of prior years	**6,705**	(9,224)
Deferred income tax	**(229,328)**	(9,966)
	459,292	366,713

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:

		2014	2013
	Note	***RMB'000***	*RMB'000*
Profit before tax from continuing operations		**3,150,008**	2,204,503
At CIT rate of 25% (2013: 25%)		**787,502**	551,126
Non-deductible items and others, net		**30,920**	56,337
Adjustment in respect of current tax of previous periods		**6,705**	(9,224)
Effect of lower tax rates	*(a)*	**(76,854)**	(66,081)
Effect of tax exemptions	*(a)*	**(211,536)**	(159,879)
Reversal of withholding tax at 5% on the distributable profits of the Group's certain PRC subsidiaries		**(12,500)**	(681)
Profits attributable to associates		**(62,303)**	(27,514)
Tax loss utilised from previous periods		**(35,255)**	(3,738)
Tax losses not recognised		**74,870**	26,367
Utilisation of previously unrecognised temporary difference		**(42,257)**	–
At the effective income tax rate of 14.58% (2013: 16.63%)		**459,292**	366,713

Notes:

(a) Twenty-four (2013: twenty-one) subsidiaries were subject to tax concessions in 2014. The total taxable profits of the subsidiaries that are subject to tax concessions amounted to approximately RMB1,197,932,000 (2013: RMB745,140,000) in aggregate. Out of the twenty-four subsidiaries, twelve (2013: eleven) 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". Nineteen (2013: eighteen) 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 RMB12,404,000 (2013: RMB12,010,000) is included in the share of profits of associates on the face of the consolidated statement of profit or loss.

9. DISCONTINUED OPERATIONS

Disposal of dairy farming business

On 25 November 2013, Inner Mongolia Fuyuan Farming Co., Ltd. ("Fuyuan"), Inner Mongolia Hehe Investment Co., Ltd. ("Hehe"), Inner Mongolia Mengniu Dairy (Group) Company Limited ("Inner Mongolia Mengniu") and certain third parties entered into a series of agreements in order to better finance Fuyuan's business expansion. In accordance with the agreements, third parties will inject additional capital to Fuyuan, consequently resulting in the dilution of Hehe's equity interest in Fuyuan from 100% to around 43%. Fuyuan engages in the dairy farming business. The deemed disposal of Fuyuan has completed in 2014, upon which Hehe lost the control of Fuyuan. As at 31 December 2013, Fuyuan was classified as a disposal group held for sale.

On 13 January 2014, the Group completed the first batch of the abovementioned transactions and accordingly Fuyuan became an associate of the Group in which Hehe held a 50.68% equity interest. On 26 June 2014, Fuyuan further issued new shares to its existing shareholders other than the Group as scheduled, which resulted in the further dilution of Hehe's interest in Fuyuan to 43.35%.

Acquisition of a subsidiary exclusively with a view to subsequent disposal

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, the Group expected to dispose Chengdu Sales in the second half year of 2014. As at 31 December 2014, Chengdu Sales was still in the process of liquidation and management expected to complete the local administrative procedures of liquidation in 2015. As such the net assets of Chengdu Sales have been classified as a disposal group and the operating results has been disclosed as a discontinued operation in the consolidated financial statements.

The results of discontinued operations for the year are presented below:

	2014	2013
	RMB'000	*RMB'000*
Revenue	**20**	43,081
Net expenses	**(83)**	(18,650)
Finance costs	**–**	(233)
Profit/(loss) before tax from discontinued operations	**(63)**	24,198
Income tax expense	**–**	–
Profit/(loss) for the year from discontinued operations	**(63)**	24,198

9. DISCONTINUED OPERATIONS *(continued)*

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

	2014	2013
	RMB'000	*RMB'000*
Assets		
Property, plant and equipment	–	275,126
Construction in progress	–	67,624
Land use rights	–	6,522
Other intangible assets	–	2,676
Biological assets	–	495,568
Inventories	–	74,102
Trade and bills receivables	**72**	12,711
Prepayments, deposits and other receivables	**7,812**	390,376
Cash and bank balances	**549**	56,299
	8,433	1,381,004
Less: Intra-group receivables	–	(284,540)
Assets classified as held for sale	**8,433**	1,096,464
Liabilities		
Trade and bills payables	**13**	54,320
Other payables and accruals	**559**	663,705
Interest-bearing bank and other borrowings	–	30,000
	572	748,025
Less: Intra-group payables	–	(544,775)
Liabilities directly associated with the assets classified as held for sale	**572**	203,250
Net assets directly associated with the disposal groups	**7,861**	893,214

The net cash flows incurred by discontinued operations are as follows:

	2014	2013
	RMB'000	*RMB'000*
Operating activities	**(705)**	(167,712)
Investing activities	–	(487,142)
Financing activities	–	667,297
Net cash inflow/(outflow)	**(705)**	12,443

10. DIVIDENDS

	Notes	**2014** **RMB'000**	2013 RMB'000
Declared and paid during the year			
Equity dividends on ordinary shares		**391,060**	290,488
Proposed for approval at the AGM			
Equity dividends on ordinary shares: Proposed final – RMB0.28 (2013: RMB0.20) per ordinary share	*(a)/(b)*	**548,406**	367,053

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 2014 but will be reflected as an appropriation of share premium account for the year ending 31 December 2015.

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

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

	2014 **Number of shares** ***'000***	2013 Number of shares *'000*
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	**1,942,240**	1,804,966
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the year	**6,804**	5,271
Adjustments for share award scheme	**5,508**	10,160
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	**1,954,552**	1,820,397

12. TRADE AND BILLS RECEIVABLES

	2014 *RMB'000*	2013 *RMB'000*
Bills receivable	**116,946**	64,628
Trade receivables	**1,191,066**	762,577
Impairment	**(159,826)**	(72,940)
	1,148,186	754,265

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 and bills receivables as at the end of the reporting period, based on the invoice dated and net of provision, is as follows:

	2014 *RMB'000*	2013 *RMB'000*
Within 3 months	**1,018,735**	635,620
4 to 6 months	**82,420**	95,743
7 to 12 months	**20,722**	11,353
Over 1 year	**26,309**	11,549
	1,148,186	754,265

13. TRADE AND BILLS PAYABLES

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

	2014 *RMB'000*	2013 *RMB'000*
Within 3 months	**4,200,799**	4,199,004
4 to 6 months	**752,738**	524,303
7 to 12 months	**30,792**	29,127
Over 1 year	**7,518**	8,864
	4,991,847	4,761,298

14. EVENTS AFTER THE REPORTING PERIOD

On 30 October 2014, Yashili, China Mengniu International Co., Ltd. ("Mengniu International") and Danone Asia Baby Nutrition Pte. Ltd. ("Danone Asia") entered into a subscription agreement pursuant to which, among other things, Danone Asia has conditionally agreed to subscribe for and Yashili has conditionally agreed to allot and issue 1,186,390,074 subscription shares (representing approximately 25% of the entire issued share capital of Yashili as enlarged by the allotment) at the subscription price of HK$3.70 per subscription share. Upon completion, the interests of Mengniu in Yashili (through its shareholding interests in Mengniu International) will be diluted from approximately 68.05% to approximately 51.04%. In the opinion of the Company's directors, Yashili will remain as a subsidiary of Mengniu. As at 12 February 2015, the conditions precedent of the subscription agreement are fulfilled and the allotment has completed.

On 31 December 2014, China Dairy (Mauritius) Ltd., a wholly-owned subsidiary of the Company, has entered into an equity interest transfer agreement to acquire an approximately 6.6862% equity interest in Inner Mongolia Mengniu from the sellers at an aggregate consideration of approximately RMB2,505,732,000 (equivalent to approximately HK$3,162,166,000) in form of cash within 10 business days of the obtaining of the approval of the Ministry of Commerce of the PRC. Upon completion, the Company is interested in directly and indirectly through China Dairy (Mauritius) Ltd., approximately 99.9775% shareholding interest of Inner Mongolia Mengniu, which is the main operating subsidiary of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Data from Nielsen Company indicates that China's liquid milk achieved a 11.8% growth in total sales in 2014. Dairy consumption of China's urban residents was comprised mainly of liquid milk products, among which basic pure milk, high-end pure milk, UHT yogurt and lactobacillus drinks are the categories which are most rapidly growing. With the upgrade of the dairy industry's product structure, the market share of high-end dairy product continued to increase and has become the main contributor of profit growth.

A number of policies and measures implemented by the government in recent years have been a shot to the arm to restore consumer confidence in domestic dairy products. However, the per capita consumption of dairy products in China remains much lower than the levels of other countries, so there is still huge room for the development of the industry. During the year, local dairy companies have worked more closely with overseas players and this strategic collaboration has consolidated the foundation for further development of the industry. While the demand for dairy products in China has advanced to a stage of steady growth, companies still must strive to reinforce their foundation and enhance their core strengths so to maintain a leading presence in this industry over the long run.

As for milk sources, the excess supply around the world has caused the global milk cost to drop, which is favorable to downstream dairy companies because lower raw material costs can result in higher gross profit margin.

BUSINESS REVIEW

In 2014, through adhering to the development vision of "becoming a consumer-oriented and innovation-led food company offering health and nutrition", Mengniu embarked on a new portfolio strategy in collaboration with business partners in order to further integrate capital, technology, product and management, aimed at improving its business coverage and enhancing its comprehensive strength. Mengniu more closely linked its upstream and downstream operations as well as its industry partners in the business chain so as to develop a harmonious and sustaining business ecosystem and creating an environment where everybody wins. Mengniu actively expanded sales channels, implemented product innovation, created a more highly interactive experience, rebuilt its brand value and opened up a new era for traditional fast-moving consumer goods companies in the internet age. At the same time, Mengniu strengthened itself and tightened quality control and through internal reforms, and completed the transformation from an amalgamation of individual systems into an operating model featuring systematic cooperation, enhancing management efficiency of the Group.

Data from Nielsen Company reveals that Mengniu's liquid milk retained its top market share. *Milk Deluxe* continuously upgraded its products and retained its throne in its market share in the high-end pure milk market while star products such as *Milk Deluxe, Just Yoghurt, Champion* and *Yoyi C* were also well-received by the market with substantial growth in sales.

On 7 March 2014, Mengniu became a Hang Seng Index constituent, making it the first blue chip Chinese dairy product manufacturer, and indicating the full confidence of the capital market in Mengniu's comprehensive business strength and development prospects. During the year, Mengniu was ranked as one of the "Best Performers 50 China" by *Global Entrepreneur* magazine and was included on the "Global Dairy Top 20" list released by Rabobank for six consecutive years. Mengniu's position in *Fortune* magazine's China 500 climbed nine places from last year to 128th.

Strategic Cooperation and Integration

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

As of 27 March 2014, Mengniu has completed placing its shares to Danone Group, the world's largest fresh dairy enterprise. With its shareholdings in Mengniu raised from 4.0% to 9.9% of the enlarged share capital, Danone Group has become the second largest strategic shareholder of Mengniu. Currently, COFCO (Hong Kong) Limited, Danone Asia Pte Ltd and Arla Foods Amba are collaborating in a joint venture, COFCO Dairy Investments Limited, which holds approximately 31.5% of the shares of China Mengniu Dairy in total with each of them holding 16.3%, 9.9% and 5.3% of the shares of Mengniu respectively.

In June 2014, the Inner Mongolia Mengniu Danone Dairy Co. Ltd., ("**Mengniu Danone**"), a joint venture established by Mengniu and Danone Group, have fully commenced operation through which the chilled business of both parties in China was integrated. Mengniu and Danone Group hold 80% and 20% of the shares in the joint venture respectively.

During the year, Danone Group dispatched experts based in the Asia-Pacific region to the plant in Ma'anshan City to launch an efficiency-enhancing project and the Ma'anshan plant has been upgraded in accordance with the global production and quality management standards of Danone Group. Since June, certain products under the *Bio* brand have been produced at the Ma'anshan plant. After full upgrading, the Ma'anshan plant's operation efficiency was substantially increased to world-leading level in the second half of the year. With the Ma'anshan plant as the pilot project, both parties provided training to the staff of other Mengniu chilled products plants to enhance operational efficiency. Starting in October, the Qingyuan chilled plant became the second plant targeted for upgrade after the Ma'anshan plant.

From July to October 2014, the joint venture team carried out uniform inspections to 13 chilled plants in accordance with international standards, identifying and resolving potential risks by using Danone Group quality management methods. At the same time, a series of training programs focusing on the "training in expertise for safety and quality chilled products" were held with a total attendance of 240. The joint venture continues to enhance its quality, and to provide high-quality chilled dairy products to consumers.

Mengniu Danone streamlined the product line and focused on promoting three star brands – *Yoyi C, Champion* and *Bio*. While consolidating product strengths, Mengniu Danone has also actively conducted research and development on new products to meet the needs of different consumers. During the year, as part of its focus on the top three brands, the joint venture introduced *Champion* in 200g cups, which was approved as a "Health Product" by the China Food and Drug Administration, flavored *Yoyi C* in 100ml containers which targeted child consumers and *Bio Fruity MIXI* which focused on convenience store sales channels. All of the products were well-received by the market. Moreover, Mengniu Danone enhanced its operating efficiency and lowered its operating costs by improving the asset utilization ratio, enhancing its strength in economies of scale and prudently managing its investment cost and capital expenditure in order to effectively improve the profitability of the chilled products business.

Through introducing the advanced quality management technique and product innovation capability of Danone Group and, at the same time, utilizing the leading market position and the enormous distribution strength of Mengniu, the joint venture is well-positioned to fully realize the huge potential of China's yogurt market.

– *Arla Foods*

On 26 April 2014, the China-Denmark Milk Technology Cooperation Center – the first national dairy project led by the ministries of agriculture of China and Denmark – formally debuted in the COFCO Nutrition and Health Research Institute in Beijing. Arla China Innovation Center, which focuses on developing cheese products for Chinese consumers, was also inaugurated at the same time and place. The China-Denmark Milk Technology Cooperation Center, already in operation, and the newly established Arla China Innovation Center marked another milestone in the close collaboration among the COFCO Group, Mengniu and Arla Foods. The location of the two centers at the COFCO Nutrition and Health Research Institute facilitates the three parties in consolidating their experiences and resources, thereby further strengthening their partnership. Mengniu is to conduct further research and innovation in food nutrition and health leveraging the research strengths that COFCO Group has accumulated over the years. By introducing advanced Danish technologies in dairy breeding, product processing and packaging, Mengniu aims to produce and provide high-quality, safe and tasty products to consumers.

As its exclusive distributor in the PRC, Mengniu principally cooperates with Arla Foods in the import business. During the year, Mengniu introduced cheese and butter products from Arla Foods; apart from the plain and mild flavor cheese sticks, the newly-launched fruit flavor *Kids Cheese Sticks* provided consumers with a wider variety of choices. Mengniu also first launched *Arla Foods Organic Whole Milk for Children* in October. Furthermore, Mengniu and Arla Foods entered into an expansion agreement, pursuant to which Arla Foods and Yashili International Holdings Ltd ("**Yashili**") (stock code: 1230) will embark on strategic cooperation in raw materials and production of an infant milk formula series. Arla Foods will endorse a high-end *Merla* series under the *Scient* brand of Yashili, *Arla Merla*, which will be introduced to the Chinese market through direct imports in April 2015.

– *Milk formula business: Yashili*

On 30 October 2014, Mengniu, Yashili and Danone Asia have entered into a share subscription agreement. Pursuant to the agreement, Danone Asia is to engage in the private issuance of shares by Yashili at the issue price of HK$3.7 per share. The private issuance transaction was completed in February 2015. After completion of the transaction, Danone Asia became the second largest shareholder of Yashili, with 25% of its shares while Mengniu still held 51% of the shares as the controlling shareholder of Yashili. The share subscription is set to strengthen their cooperation in the infant milk formula segment.

In January 2015, Mr. Minfang Lu, a former member of the senior management team of Danone Early Life Nutrition Greater China has been appointed as the Chief Executive Officer of Yashili. Danone Group is to share more concepts and experience in international management with Yashili. These efforts, combined with the extensive network of Mengniu in China and leveraging the global expertise of Danone in infant milk formula, would facilitate Yashili in providing domestic consumers with more infant milk formula products that meet international standards. Mengniu would continue expediting the reform and innovative quality of Yashili in organizational functions, branding, channels and products and, also facilitates the internationalization of Yashili.

In 2014, Yashili has actively pushed forward internal organizational restructuring, clearly defined and optimized an authorization and approval system, enhanced the collaboration between the milk formula business division and functional departments, and boosted overall operational and management efficiencies. Meanwhile, it has devoted considerable efforts on channel transformation and attempting to improve its sales model through developing a membership cumulative points service system and opening membership shops to recruit members. It has also set up a special e-commerce team and developed designated channels for products to cope with evolution of trends in the channels.

In November 2014, Yashili entered into a strategic cooperation agreement with UniServices, the research and development institution of Auckland University, to jointly advance the research work in the fields of infant and pregnant woman nutrition as well as the growth and nourishment of infants. At the same time, Yashili's overseas production base in Waikato, North Island, New Zealand, commanding an annual capacity of approximately 50,000 tonnes is to commence production in May 2015. The plant adopts production standard of an even higher specification, and a comprehensive management system. This marked an important step in the internationalization of Yashili's progress and Mengniu's milk formula business has been further strengthened.

In 2014, Yashili was at the initial stage of channel transformation and reforming its sales model. In 2015, with "Focus, Brand, Resource" as its core strategy, Yashili will implement rebranding and optimization, with a focus on developing star product *Yashily Super α – Golden Stage* series. It will launch more products customized for specific channels so as to open more market sectors and ultimately become more competitive.

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

Mengniu and WhiteWave have completed the acquisition of Yashili (Zhengzhou) Nourishment Co., Ltd. through a joint-equity company established at the end of April 2014, with Mengniu and WhiteWave holding 51% and 49% of the joint-equity company respectively. The joint-equity company is mainly engaged in the manufacturing, packaging and distribution of nutrition products in the PRC.

Mengniu introduced *Silk*, the plant-based beverage from WhiteWave, to China and the brand *ZhiPuMoFang* is therefore becoming established in the country. *ZhiPuMoFang* fills the gaps of domestic high-end plant-based protein beverage market by introduction of the international advanced techniques of zero additive and 100% original nut grinding. There are two series in the *ZhiPuMoFang* plant-based protein beverage, namely, walnut and almond. Both were introduced on a trial basis on 18 November on electronic business platforms including JD Online Shopping Mall and were fully launched on 12 December. The defining product characteristics of *ZhiPuMoFang* including zero cholesterol, low fat and richness in calcium and vitamin E were designed to satisfy the needs of different health-conscious customers. The successful launch of *ZhiPuMoFang* marked a vital step forward in Mengniu’s becoming “an innovation-led food company offering health and nutrition” and opened a new chapter in the Group’s internationalization and expansion of product portfolio.

Quality Management

To build up Mengniu’s strength step by step, the “four carriages”, namely the quality and safety management system and three quality management centers on milk sources, operations and sales respectively are operationally coordinated. New and amended standards have refined and strengthened end-to-end quality control system throughout the whole operation. Mengniu cooperated closely with every outside party, including ranch owners, raw material suppliers, distributors and retailers along the value chain ranging from ranches and factories to the market in order to ensure the quality and safety of its dairy products. In addition, Mengniu has consolidated all of its quality information in a database so as to achieve comprehensive digitalized management.

Mengniu is among the first to introduce a risk management mechanism as part of the quality and safety management system, under which the compliance risks in our production and operation processes are evaluated and highlighted. This system facilitates Mengniu’s management of legal risks and ensures the compliance of the Group’s operation. Mengniu has also enhanced its quality management standard by fostering and providing technical support to its factories, implementing standardized management over its suppliers, and eliminating every flaw in its quality management system.

The quality management center on milk sources has worked closely in line with the quality and safety management system to modify the technical quality management system by improvements in seven aspects, including regional risk, source suppliers, safety of milk sources, factory management, laboratory inspection capabilities, control over substandard milk and supplier management. 13 ranches under Mengniu's milk supplier system have been successfully certified under both the national and EU certification systems. Furthermore, as of the end of 2014, 13 of Mengniu's laboratories have been certified by the National Accreditation Service and provide strong support to the quality of our products.

The quality management center on operations has established a factory standard evaluation system to implement on-site quality management. It has also completed six quality improvements and three quality innovation projects that have significantly enhanced the pass rate of the finished products and reduced the number of complaints. In addition, this center has also greatly improved the efficiency of testing through the use of raw milk microorganism quick testing machine and a commercial sterile quick testing method.

The quality management center on sales has prepared a *School Milk Nutritional Facts and Safety Control Standard Manual*. Business associates at the points-of-sales are required to implement the manual comprehensively over the operations supplying milk to schools ranging from storage and distribution to consumption and after-sales services so as to ensure the quality and safety of the milk. During the year, six farms supplying Mengniu raw milk to produce school milk were named as "National School Milk Sources Demonstration Base".

Mengniu has joined the milk formula enterprises quality and safety tracing system introduced by the Ministry of Industry and Information Technology as a pilot participant in June 2014. It is setting up a system platform that is linked to the relevant government departments, answering consumers' enquiries and providing information about Mengniu and its products. The establishment of the quality and safety tracing platform has profound significance for the perfection and upgrade of the safety system of Mengniu as well as the Chinese dairy industry as a whole.

In August 2014, Mengniu has entered into strategic agreements with two industry leaders, namely SGS-CSTC Standards Technical Services Co., Ltd. and Lloyd's Register Quality Assurance (Shanghai) Co., Ltd., to enhance its end-to-end quality management. This cooperation will not only significantly reduce Mengniu's cost of certification and audits, but also continuously improve its management system through sharing and learning new quality management concepts from domestic and foreign experts.

AsureQuality, a state-owned enterprise in New Zealand and one of Mengniu's partners, has also deployed its experts to inspect and study the ranches of Mengniu. These authoritative experts have identified the potential risks of our ranches and offered relevant solutions. It is expected that in early 2015, AsureQuality will start to set audit standards for ranches cooperating with Mengniu in order to boost the development of these partners' ranches.

Raw Milk Sourcing

Mengniu has continued to strengthen the development of milk sources and ensure their quality. Aiming at building a harmonious, symbiotic and mutually supportive ecosystem, Mengniu has implemented a series of measures and reforms that has effectively improved the structure of its milk sources and production capacity, the matching of its milk sources and product mix, and the development of scientific farming in the ranches. Synergies have started to become realized. During the year, Mengniu's milk sources provided by ranches and scaled farms reached 96%.

Mengniu has launched the FM Project to stimulate the transformation of small- and medium-scale family-based ranches into mass production. Through the joint fund-raising efforts between Mengniu, banks and ranches, the project has nurtured and established a hundred 300-to 3,000-head small- and medium-scale family-based ranches across the country, 94% of which are located in northeastern, northern and northwestern China. The FM Project has further optimized the structure of Mengniu's milk sources and pushed the ranches to transform and upgrade, further assuring food safety.

The Mengniu Excellent Supplier System ("**MES**") has enlisted experts from around China and Denmark to conduct comprehensive profitability assessment according to the operation management and performance indicators of 54 target ranches, and help prepare practical and effective improvement schemes to gradually increase the profits of the raw milk suppliers. As of the end of November 2014, the average annual yield per cow of all the MES pilot suppliers has increased by 0.12 tons while maintaining the quality of their raw milk.

Mengniu's "University of Ranchers", the first-institution-of-its-kind, provides theoretical and practical training to the managerial staff of numerous large and medium scale ranches. After rounds of assessment, 100 ranchers with 300-3,000 cows were selected to be the first batch of students to enroll at the "University of Ranchers". Currently, 10 training bases have been established across various regions in the country. Mengniu has also become the first to introduce advanced satellite real-time broadcasting technology to milk sources in order to provide a cloud-computing based technical service platform to ranchers. Mengniu believes that the improvement in the expertise and management skills of the cow ranchers will be the tireless engine of the industry's sustainable and healthy growth, which will also benefit Mengniu.

During the year, Mengniu has commenced a ranch material sourcing service that introduces quality products and services to raw milk suppliers through a number of measures such as establishing unified negotiations, resource channels and a resource sharing system, and upgrades the suppliers' equipment to reduce their operating and sourcing costs. At the same time, this new service strengthened control on the suppliers to ensure the quality of the raw milk.

Mengniu has also set up model ranches and established the Mengniu Gaarden Ranch Quality Management System, which is a standardized ranch operation procedure covering 11 sections, 70 processes and 661 points-of-control, with reference to the advanced ranch management experience of Arla Foods.

Sales Channels

In 2014, Mengniu has enhanced its sales management system in three principle aspects: refining organizational structure in regional markets, establishing independent financial accounting centers and setting up a scientific management system, so as to further expand its sales network, realize fine management over its sales channels and enhance its control over points-of-sales.

During the year, Mengniu set up 18 Central Business Units ("**CBU**") that focus on ice cream in first- and second-tier cities and formulated a systematic CBU management model, thus laying the foundation for future expansion of the scale and product mix of CBUs. The CBU model achieved significant results in strengthening direct control over points-of-sales, enlarging market share and enhancing their core competitiveness in key markets through a more streamlined structure and standardized operations. The CBUs in general delivered outstanding market performance.

Through its investee and subsidiary sales branches, Mengniu has reinforced its control over the points-of-sales in key markets and set up successful management models. With the establishment of standardized corporate governance and operations management systems, the business performance of the sales branches has continuously improved.

Furthermore, the 160 Regional Business Units ("**RBU**") have helped Mengniu to provide a comprehensive range of services to more than 3,000 distributors in third- and fourth-tier cities and refined their allocation of resources, thereby enhancing their operating capacity and market competitiveness. Under this flexible and service-oriented regional sales and financial management structure, Mengniu partially assigned its controlling power to the independent financial accounting centers established in the regions.

With respect to modern sales channels, the three-level key account ("**KA**") service team comprising the headquarters-based client team, the regional team and the distributor team has enlarged its operation from supporting sales to directly accounting for retailers' sales. The KA team has extended its role from being merely a supplier of products to a strategic partner of the retailers through cooperation in the management of product categories. The use of the KA-EPOS intelligent data system has assisted the KA team to implement sophisticated management over 5,000-plus hypermarkets and supermarkets, and has led to considerable savings in labor cost.

In addition, Mengniu has aggressively enlarged its e-commerce business through closer cooperation with mobile and internet platforms, such as Tmall.com, Yhd.com and JD.COM, and coordinating offline distribution by its distributors.

Sales in Hong Kong, Macau and foreign markets have also grown rapidly. Mengniu's products are currently sold in Hong Kong, Macau, as well as two foreign markets, namely Singapore and Mongolia. Given a wide variety of flexible promotional campaigns, the network coverage and total sales in Hong Kong, Macau and foreign markets saw strong growth during the year.

Branding Strategy

Mengniu has further streamlined the number of products and has optimized its brand structure. One aspect of this strategic direction is a focus on its key products and adhering strongly to its brand merits. At the same time, Mengniu is utilizing the internet and the new social media to create an interactive and new brand experience, attracting consumers to jointly build up its core brand value.

During the year, Mengniu launched the branding campaign of "A Drop of Goodness" through a series of nationwide flash mob activities, fully complementing the brand proposition "Little Happiness Matters". Subsequently, Mengniu launched the activity "Little Things that Make My Day", and started a Weibo topic of "Expressions of Love" using a creative approach. The topic recorded a total of 38.9 million page views. Mengniu has also debute the star citizen project of "A Drop of Goodness" and invited celebrities including Tian Liang and Chen Chusheng, calling for charity contributions from everyone in society, regardless of the amount. Focusing on the topic "A Drop of Goodness" and through competitions such as marathons, charity run, family activities and photo contests, Mengniu has engaged in numerous interactive activities. Mengniu has also led the staff to carry out a spokesperson solicitation campaign while the whole Group sang the theme song "A Drop of Goodness". The Branding campaign "A Drop of Goodness" was awarded the "Golden Award in Brand Management" at the "First Chinese Creative Communication Awards – Suqin Awards". Through this simplest and most persistent action of "A Drop of Goodness", Mengniu showed the consumers every little change Mengniu had made and conveyed its care to consumers through its milk. At the same time, Mengniu attracted consumers' attention to "A Drop of Goodness" in their own lives.

Mengniu has actively embraced the internet in its branding and marketing. Through creative branding campaigns, Mengniu has highlighted the functions of its products and enhanced brand value. As the new media era is coming, Mengniu has thoroughly revised its mode of communication with consumers. By utilizing social media platforms such as APPs, Weibo and WeChat, Mengniu strengthened its interaction with consumers. As for products targeted at young consumers, Mengniu increased its investment in digital media. As the first fast-moving consumer goods enterprise in the country to engage in cross-over partnership with Didi, Mengniu has opened up a new model of cross-over cooperation between a traditional enterprise and an internet enterprise. The two parties selected the 2015 Chinese New Year as the key time to embark on close cooperation in a series of online and offline activities. Consumers as well as Mengniu's partners and staff could obtain "Cow Luck Red Packets" coupon through a range of social media including Weibo, WeChat, Didi APP, etc. Mengniu has also launched the caring activity of "A Fortunate Year with Cow Luck Red Packets" whereby passengers of Didi taxis might have the chance to enjoy the milk surprise from Mengniu.

During the year, Mengniu has introduced the *Prime Ranch Pure Milk*, the first 2-D barcode traceable milk in China. By utilizing the cloud technology of Baidu and the tracking system of 2-D barcode, Mengniu has created the brand-new "Cloud Ranch" concept in the industry, allowing the consumers to access the descriptions, pictures and even the video of the whole production process of ranches and factories. Shortly after the launch, more than 19 million people participated in the "Rob the Prime Ranches" shake promotion through the "Cloud Ranch" while the sales of Mengniu Prime Ranch Tmall Flagship Store exceeded 100,000 packs in 62 hours, making *Prime Ranch Pure Milk* the top product in the dairy category in web sales. Widely praised in both the mobile internet and professional advertising and marketing sectors, "Cloud Ranch" was awarded "MMA Mobile Technology Innovation Gold Award – Technology Application Category", the "2014 Chinese Innovative Marketing Case Gold Award", the "TMA Mobile Marketing Award – Creative Category Best Case", "Modern Advertisement Great Wall Awards – Cross Media Integrated Gold Award", etc. The "Cloud Ranch" app is the revolutionary innovation created by Mengniu in internet space as the realization of open, transparent and sincere communication. *Prime Ranch Pure Milk*'s breakthrough in mobile marketing has bolstered consumers' confidence with quality they could see, enhancing the product image of the parent brand Mengniu.

In step with *Milk Deluxe's* new product launch, Mengniu put forward the brand proposition of "For a Better Beginning, Begin with *Milk Deluxe*". Creatively adopting the internet concept of crowdfunding, Mengniu launched the "99 Better Schemes" for strengthening the brand value of *Milk Deluxe* so as to gain the recognition from consumers with *Milk Deluxe's* "Better Beginning". Transforming from simple functional benefits to a clear brand proposition, the leading position and perception as an innovation of *Milk Deluxe* was enhanced, as it added new brand value and was subsequently honoured with the award of "2014 Leading Brands that Influence China".

Just Yoghurt has launched a yogurt tasting challenge campaign "Witness the Miracle with Taste", which achieved two Guinness World Records – "The Yogurt Tasting Survey with the Most Participants" and the "Largest Online Photo Album of Handwritten Notes". *Just Yoghurt* sponsored "Rising Star", a complete media music reality show without sound modification and video editing and a perfect match with the product concept. Through the integration of the large platform of "Rising Star", *Just Yoghurt* achieved outstanding results in both online and offline and promotion of every aspect. Regional sales of *Just Yoghurt* were also effectively increased through sponsorship of Zhang Jie's concert. By utilizing integrated marketing through major events and large platforms, the concept of "Delicious Taste without Additives" of *Just Yoghurt* was widely promoted, making *Just Yoghurt* the UHT yogurt brand with the fastest growth.

During the year, through interesting themed marketing activities such as "The Indigestible Affairs during the Chinese New Year", "Call of the Great Bowel Gang", "Mission Six-Pack Abs" and "Mission Sin of Rice", Mengniu widely trumpeted the benefits of *Yoyi C* while also carrying out social media promotion through SNS and video websites. Through the creative combination of digital with offline activities such as the refreshing of visual images and giveaways of millions-of-bottles, *Yoyi C's* image was effectively enhanced, which in turn drove up sales.

Mengniu cooperated with Hunan Satellite TV to promote *Fruit Milk Drink* in its top variety show "I Am a Singer 2". Breaking from the conventional format of embedded advertisements, Mengniu perfectly incorporated the branding elements within the visual elements of the show's logo. At the same time, taking advantage of the popularity of "I Am a Singer 2" and following the trend of changing habits in media usage among young consumer groups, Mengniu initiated cross-media interactive marketing with mobile digital platforms such as Weibo, WeChat and the Hunan Satellite TV official app WhoNow. *Fruit Milk Drink* was the first in the dairy industry to open a WeChat services account, leading the way through a new model in interactive marketing. *Fruit Milk Drink* was embedded in three romantic comedies "Girls", "Women Who Flirt" and "Meet Miss Anxiety", forming an ideal match with the tone of the brand. During the year, *Fruit Milk Drink's* market share and reputation rose and the brand garnered 11 awards including the "2014 Chinese Advertisement Great Wall Awards – Advertiser Brand Marketing Communications Gold Award" and the "China Advertising Association Effective Campaign Award".

Our efforts in rebuilding the Mengniu brand not only created a favourable impression among consumers and earned their trust, but were also recognized by professional institutions.

Management System

To enhance its operating efficiency and competitiveness, Mengniu introduced the state-of-the-art SAP system in 2013 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 synergetic system for production, supply and sales; integrated quality management and refined quality tracking; rational industrial planning; and efficient management on procurement and logistics. The deployment is planned to leverage the system's advanced management concept in line with the Group's specific needs and circumstances.

The SAP project is being implemented in three stages: the foundational implementation phase between 2013 and 2014, the operational refinement phase between 2015 and 2016, and the coordination and optimization stage between 2016 and 2017. The first phase of the project is focused on two sub-projects, namely Enterprise Resource Planning ("**ERP**") and Customer Relationship Management ("**CRM**"), which have already been completed and are running successfully.

The ERP system monitors the eight sectors of milk sources, procurement, planning, production, sales, logistics, quality and finance and is used in four major product categories, namely UHT, chilled business, ice cream and cheese. The ERP system has been fully operative since February 2015 and offers an integrated platform, unified management standards and a consolidated database for the whole business involved in the supply chain of Mengniu, and integrates Mengniu's financial and operational functions. It has created synergies between upstream and downstream operations as well as between operations and finances while enhancing the operational and financial management standards.

The implementation of the CRM system during the year also provided comprehensive management across sales operations and closed-loop management of promotion expenses spanning from promotional budgeting to the analysis of investment returns from promotional investment, thereby realizing collaboration among all marketing channels while strengthening our marketing capability in general.

FINANCIAL REVIEW[1]

Revenue

Mengniu has continued its adjustments to its internal organizational structure and has streamlined its product portfolio in order to utilize resources more effectively on key brands. These efforts have yielded significant results aided by the support of innovative marketing initiatives. As the Group has carried out a series of reforms to stimulate organic growth, in addition to the revenue contribution of RMB2,816.4 million (2013: RMB1,499.1 million) from Yashili during 2014 (Yashili was consolidated into the Group in August 2013), the Group's revenue for 2014 grew by 15.4% year-on-year to RMB50,049.2 million (2013: RMB43,356.9 million). Excluding Yashili, the Group's revenue rose by 12.8% to RMB47,232.8 million (2013: RMB41,857.8 million). The products with a greater contribution to revenue growth were Mengniu Pure Milk, *Milk Deluxe, Yoyi C* and *Just Yoghurt*, while *Milk Deluxe, Yoyi C, Champion* and *Just Yoghurt* maintained strong double-digit growth.

Gross Profit

The Group has proactively seized the market development trends. Efforts were made to restructure product portfolio and develop key products, as a result, gross margin was improved. Raw milk prices dropped from the high levels recorded at the beginning of the year due to the increase in domestic supply of raw milk, so the costs of raw milk rose less than the Group expected. In addition, the price of Mengniu's products increased at different times last year, leading to the further growth of the Group's gross profit for the year. The gross profit of the Group increased to RMB15,433.6 million (2013: RMB11,697.2 million), while gross margin reached 30.8% (2013: 27.0%), rising 3.8 percentage points as compared with last year. Excluding Yashili, the Group's gross profit was RMB13,969.8 million (2013: RMB10,918.4 million), while gross margin rose 3.5 percentage points year-on-year to 29.6%.

The Group's gross profit contributed from Yashili for the year was RMB1,463.8 million (2013: RMB778.8 million).

Operating Expenses

The Group has proactively modified its strategies on expenditures in response to market conditions. As a result, operating expenses rose to RMB13,218.1 million (2013: RMB10,134.1 million), representing approximately 26.4% (2013: 23.4%) of the Group's revenue. Excluding Yashili, the Group's operating expenses were RMB11,870.3 million (2013: RMB9,464.1 million), representing 25.1% (2013: 22.6%) of the revenue excluding Yashili.

Due to the greater investment in sales channels in response to market competition, selling and distribution expenses increased by 29.3% to RMB10,563.7 million (2013: RMB8,168.2 million), and its percentage to the Group's revenue increased to 21.1% (2013: 18.8%). Excluding Yashili, the selling and distribution expenses of the Group were RMB9,456.9 million (2013: RMB7,604.0 million), representing 20.0% (2013: 18.2%) of the revenue excluding the contribution of Yashili, up 1.8 percentage points year-on-year.

1 Yashili was consolidated into the Group in August 2013, hence the 2013 figures in respect to the Group and Yashili as set out in this report are figures after the consolidation.

The Group's continued increase in its investment in digital media and offline marketing activities led to rising advertising and promotion expenses of 54.1% to RMB4,177.3 million (2013: RMB2,710.1 million) for the year, and its percentage to the Group's revenue increased to 8.3% (2013: 6.3%). Excluding Yashili, the Group's advertising and promotion expenses rose by 49.5% to RMB3,742.3 million (2013: RMB2,502.5 million), representing 7.9% (2013: 6.0%) of the revenue excluding Yashili's contribution, up 1.9 percentage points year-on-year.

Administrative and other operating expenses increased by 35.0% to RMB2,654.4 million (2013: RMB1,965.9 million), and its percentage to the Group's revenue increased to 5.3% (2013: 4.5%). Excluding Yashili, the Group's administrative and other operating expenses was RMB2,413.4 million (2013: RMB1,860.1 million), representing 5.1% (2013: 4.4%) of the revenue excluding Yashili's contribution, up 0.7 percentage points year-on-year.

Profit from Operating Activities and Net Profit

Despite the growth in revenue and gross profit being partially offset by the increase in cost and operating expenses, the Group's earnings before interest, taxes, depreciation and amortization (EBITDA) increased by 31.9% to RMB4,283.9 million (2013: RMB3,247.4 million), while the EBITDA margin grew to 8.6% (2013: 7.5%). Excluding Yashili's contribution, the Group's EBITDA was RMB3,946.7 million (2013: RMB3,086.5 million), and the EBITDA margin rose to 8.4% (2013: 7.4%).

Profit attributable to owners of the Company amounted to RMB2,350.8 million (2013: RMB1,630.9 million), representing a year-on-year growth of 44.1%. In particular, the profit contribution from Yashili to the Group amounted to RMB121.5 million. Basic earnings per share amounted to RMB1.210 (2013: RMB0.904), representing a year-on-year increase of 33.8%. Excluding Yashili's contribution, profit attributable to owners of the Company amounted to RMB2,229.3 million (2013: RMB1,535.6 million), representing a year-on-year growth of 45.2%.

Income Tax Expenses

In 2014, the effective income tax rate for the Group was 14.6% (2013: 16.6%), representing a year-on-year decrease of 2.0 percentage points over last year. Excluding Yashili, the effective income tax rate dropped to 14.1% (2013: 17.0%), representing a year-on-year decrease of 2.9 percentage points. The decrease in income tax rate was due to the increased profits attributable to associates that are not subject to tax and the previous unrecognised tax loss arising from deferred tax and temporary difference utilised in the year of 2014.

Capital Expenditure

As of the end of 2014, the capital expenditure (CAPEX) of the Group amounted to RMB3,278.3 million (2013: RMB12,596.5 million), representing a 74.0% decrease year-on-year. The CAPEX was used for construction of production plants and equipment amounting to RMB2,812.9 million; purchase of biological assets amounting to RMB118.5 million and additions in equity investment in respect of Danone Beijing and Danone Shanghai amounting to RMB295.1 million. Excluding Yashili, the CAPEX of the Group was RMB2,554.0 million (2013: RMB12,374.6 million). The CAPEX of Yashili amounted to RMB724.3 million, which was mainly used for the construction of the plant in New Zealand. The Group has adopted a prudent policy in its CAPEX so as to lay a solid foundation for future development.

Mengniu's CAPEX in 2013 included a total consideration of RMB9,729.4 million of equity investment in China Modern Dairy Holdings Ltd. and Yashili, etc.

Working Capital, Financial Resource and Capital Structure

The Group's net cash inflow from operating activities decreased to RMB3,079.9 million (2013: RMB3,283.7 million). The decrease was primarily attributable to the increase in raw material inventory.

On 27 March 2014, Mengniu announced the completion of the placement of shares to Danone Group with proceeds of HK$5,152.5 million (approximately US$665.0 million), which were used to repay the related outstanding amount of loans for the acquisition of Yashili and other outstanding corporate debts in order to improve Mengniu's capital structure.

In May 2014, the Group has closed a US$200 million three-year syndicated loan facility. The facility marks the Group's debut in the offshore loans market. The funds were used for refinancing the existing debts.

As of December 31, 2014, the Group's outstanding bank loans and bonds were reduced to RMB9,824.7 million (December 31, 2013: RMB11,697.0 million). Excluding Yashili, the Group's outstanding bank loans and bonds amounted to RMB9,062.1 million (December 31, 2013: RMB11,495.5 million).

As of December 31, 2014, the Group's net borrowings (total bank loans and bonds net of cash and bank deposits) amounted to RMB5,175.1 million (31 December 2013: RMB4,595.5 million). Excluding Yashili, the Group's net borrowings were RMB5,212.3 million (2013: RMB5,204.0 million).

The total equity of the Group was RMB24,492.9 million as of December 31, 2014 (December 31, 2013: RMB18,011.1 million), while the debt-to-equity ratio (total bank loans and bonds over total equity) was 40.1% (December 31, 2013: 64.9%).

The Group's finance costs amounted to RMB339.9 million (2013: RMB160.4 million), accounting for approximately 0.7% of the Group's revenue (2013: 0.4%). Excluding Yashili, the Group's finance costs were RMB333.2 million (2013: RMB150.3 million), representing 0.7% (2013: 0.4%) of the revenue excluding Yashili, up 0.3 percentage points year-on-year.

Products

During the year, Mengniu strengthened its business structure through cooperation with its worldwide strategic partners. Besides reinforcing its leadership position in the liquid milk products market, it has also aggressively expanded in the yogurt and milk formula market as well as entered the plant-based beverage market through the launch of its first plant-based protein drink – *ZhiPuMoFang*. Mengniu has focused on the establishment of a product mix that caters to consumers' wants. To better satisfy the varied needs of the consumers, it has utilized the internet to redefine milk with innovations in product categories, tastes, packaging, distribution channels, branding and beyond. In addition, based on the market situation, Mengniu has further rationalized its product portfolio in a way that highlights key products in order to upgrade its product structure.

Mengniu's principal businesses comprise liquid milk, ice cream, milk formula and other products. Their performance during the year is as follows:

Product category	**Financial performance**	**Highlights**	**Key products**
Liquid milk	Revenue amounted to RMB43,036.1 million (2013: RMB37,902.8 million), accounting for 86.0% of Mengniu's total revenue (2013: 87.4%)		
UHT milk	Revenue amounted to RMB23,701.6 million (2013: RMB22,053.3 million), accounting for 55.1% (2013: 58.2%) of the liquid milk segment's revenue	– *Milk Deluxe Global Selection Pure Milk* and *Milk Deluxe Grain* were added to *Milk Deluxe*'s portfolio. *Milk Deluxe Global Selection Pure Milk* advocates the search of milk sources that meet the stringent standard of *Milk Deluxe* from around the world so as to bring international premium milk to its consumers. *Milk Deluxe Grain* is the first domestic milk product with natural grain and helps to reinforce the leading position of the *Milk Deluxe* brand in the high-end milk market by completing its portfolio and strengthening its creativity – *M-PLUS Sport Milk* is the first intelligent body-shaping and body-building milk in the world designed specifically for private training. Leveraging cloud-based technologies, intelligent health equipment and the M-PLUS APP, this product provides consumers with protein required for their training and body shaping, thereby offering them a healthier lifestyle	*Milk Deluxe* *Milk Deluxe Global Selection Pure Milk* *Milk Deluxe Grain* *Prime Ranch Pure Milk* *Just Yoghurt* *Awakening Youth Milk* *Future Star Kid Milk* *Latte* *Arla Foods Organic Pure Milk*

Product category	Financial performance	Highlights	Key products
		– Launch of *Future Star Kid Organic Milk* to differentiate from the highly homogenous market for children's milk and reinforce the high-end image of *Future Star*; introduction of two flavored milk products, namely *Future Star Kid Walnut Milk* and *Future Star Kid Strawberry Milk*, to suit children's tastes. The *Future Star Kid Nutritious Flavored Yogurt* in a banana, strawberry and oatmeal mixed flavor was launched in October as the first children's UHT yogurt of its kind in China and lifted Mengniu to become the topnotch UHT yogurt brand in the domestic market – Using integrated and digitalized marketing, *Latte* is positioned as a "unique milk" that delivers "unique enjoyment" to consumers – *Awakening Youth Milk* aims to become the leading high-end milk brand among the middle-aged and elderly. The packaging of *Awakening Youth Strengthener* and *Energiser Milk* was upgraded in March to enhance the brand's image and value and has been well-received by consumers – Through "Rising Star", *Just Yoghurt* whipped up a blue storm online and offline, and successfully shaped its pure image using integrated marketing strategies encompassing big events and large platforms, becoming the fastest-growing UHT yogurt – *XinYangDao*, a lactose-free functional milk, targets at people with lactose intolerance and discomfort with milk. A packaging upgrade for the three product versions, namely whole milk, low-fat milk and nutritious milk, provides consumers a fresh brand image	

Product category	**Financial performance**	**Highlights**	**Key products**
		– Arla Foods has introduced a new product *Organic Whole Milk for Children* into China which is 100% directly imported and has attained certification as an organic food from both the European Union and China. The new product not only serves as a healthy nutritional milk, but also symbolizes the tender and caring love from a mother	
Milk beverages	Revenue amounted to RMB11,920.6 million (2013: RMB10,425.5 million), accounting for 27.7% (2013: 27.5%) of the liquid milk segment's revenue	– *Yoyi C* launched the brand new orange flavor and low-sugar series, as well as the 100ml plain, apple and strawberry flavors, offering more healthy choices to the consumers – Featuring the cute and funny Minion, a popular figure among the post-90s generation, *Minion Banana Milk* successfully delivers enjoyment to consumers	*Fruit Milk Drink* *Suan Suan Ru* *Yoyi C* *Miao Miao Milk* *Minion Banana Milk*
Yogurt	Revenue amounted to RMB7,413.9 million (2013: RMB5,424.0 million), accounting for 17.2% (2013: 14.3%) of the liquid milk segment's revenue	– Joint launch of *Bio Fruity MIXI* with Danone Group in June targeting the high-potential convenience store channel – An upgrade for *Champion* from blue to platinum packaging and positioning the brand as the "Champion in health" through in-depth consumer interactive promotion – Launch of Yogurt under the joint brands of Mengniu and Danone	*Champion* *Future Star Kid Yogurt* *Junlebao* *Bio*
Ice cream	Revenue amounted to RMB2,716.1 million (2013: RMB3,023.4 million), accounting for 5.4% (2013: 7.0%) of the total revenue	– Launch of *Suibianbaoliao* ice cream which has a base of puffed milk and cookie crumbs covered with chocolate, wheat flakes and cookie crumbs to deliver a new crispy texture to the consumers – Launch of *Deluxe Wheat Flake and Cookie Ice Cream* that highlights the classic combination of ice cream and wheat flakes to enlarge the variety of tastes offered by *Deluxe* ice cream	*Deluxe* *Mood for Green Ice Crystal Cup* *Ice^{+}* *Milk Stick*

Product category	Financial performance	Highlights	Key products
Milk formula	Revenue amounted to RMB3,961.0 million (2013: RMB2,177.3 million), accounting for 7.9% (2013: 5.0%) of the total revenue	– Introduction in June of the second infant milk formula brand, *Milex*, tailored for Chinese infants for easy digestion and nutrient absorption, improving intestinal functions and boosting the immune system to enter the mid-range to high-end infant milk formula market. Introduction of high-end new product *Ruipuen* in September, further strengthening Mengniu's position in the mid-range to high-end infant milk formula market – Launch of the upgraded infant milk formula of *Yashily α-golden+ Stage* with nutrition and taste similar to breast milk to strengthen the immune system of babies	*Arla Baby & Me* *Oushi* *Yashily Super α-golden Stage* *Milex*
Other products	Revenue amounted to RMB336.0 million (2013: RMB253.5 million), accounting for 0.7% (2013: 0.6%) of the total revenue	– A packaging upgrade for *Kids Cheese Sticks* of Arla Foods. Apart from the plain and mild tastes, strawberry and banana tastes were newly added to enlarge the variety of tastes for the kids – Launch of *ZhiPuMoFang*, the first joint brand with WhiteWave from America in China, in December with new almond and walnut plant-based beverages to enter the plant-based beverage market	*Future Star Kids Cheese Sticks* *European Fromage Frais* *European Fermented Milk* *ZhiPuMoFang*

PRODUCTION

Mengniu's allocation of production capacity is based on market potential and product strategy. As of December 2014, Mengniu has 33 production bases across the country, with a total production capacity of 8.10 million tons (December 2013: 7.77 million tons). The enhancement of production capacity was mainly achieved by adding new production lines, product category expansion and technical upgrade of existing production capacity.

SOCIAL RESPONSIBILITY

Mengniu has always actively strived to fulfill its corporate social responsibilities and incorporate these social responsibilities in its daily operations and management. In addition to the staffs' active involvement, Mengniu has also collaborated with upstream and downstream partners along the value chain in social charity, low-carbon and green development, work safety and talent development to jointly create a sustainable ecosystem and give back to society.

Immediately after the 6.5-magnitude earthquake in Longtoushan Township, Ludian County, Zhaotong City, Yunnan Province on 3 August 2014, Mengniu set up an emergency earthquake relief team to the disaster zone providing relief supplies on the same night as it applied its experience during the earthquakes in Wenchuan County, Sichuan Province, Ya'an City, Sichuan Province and Yushu City, Qinghai Province. Mengniu has donated in aggregate RMB645,000, as well as other supplies (including medicine, water, instant noodles and raincoats) valued at RMB77,000 and more than 10,000 cartons of milk to the earthquake disaster zone in Yunnan.

Mengniu has also launched a series of charity activities according to social conditions. In view of the dropping age of HIV-positive people and the high risk of university students being infected with AIDS, the Committee on Prevention of AIDS of the State Council has held a red-ribbon health ambassador campaign on campuses advocating a beautiful youth, in which Mengniu joined as a supporting partner of national charities to support and participate in all the activities with the aim of uniting efforts across society to fight against AIDS.

During the year, Mengniu continued to cooperate with its partners to do public service by pooling together the efforts of these partners. Mengniu and its partners have jointly carried out a series of campaigns such as "Looking for Teachers with the Most Beautiful Hearts in Rural Areas", "Give a Lecture in My Hometown", "Happy Gift" and "Exchange of Calories". As of 2014, Mengniu has extended the reach of "Give a Lecture in My Hometown" with the help of 108 partners and 88 celebrities. Chief Executive Officer, Ms. Sun Yiping, has joined the team to organize lectures together with the students and visited the rural teachers in the primary school in Shimiaozi Town, Sichuan Province. A total of almost 500 rural schools in 22 provinces and municipalities has been covered by this activity, benefiting more than 70,000 teachers and students.

Furthermore, since November 2013, Mengniu has joined hands with more than 60 partners along the value chain and tens of thousands of netizens to "Run for Love" and conduct an "Exchange of Calories". These activities target almost 500 rural schools in need across 22 provinces and municipalities across the country. More than 300,000 volunteers donated nearly 120,000 pairs of gloves, 1,000 pairs of shoes and 2,000 workbooks, a number of stationery and sports equipment as well as other daily utensils for the communities in need.

Mengniu carried on with the "Sweeping Haze Together" activity in 2014. On 10 October, Mengniu, the China Environmental Protection Foundation and the Foreign Trade Office of the Ministry of Environmental Protection joined hands to organize the "A Drop of Goodness – Sweeping Haze Together" charity walk to promote environmental protection. In view of the desertification and deterioration of the ecosystems around oases in Dunhuang, an important hub on the Silk Road, Mengniu led about 50 volunteers to collect specimens of wetland plants and conduct plot observation in the core areas of the natural reserve in Yangguan, Dunhuang. In November, Mengniu organized several "Sweeping Haze Together" activities such as the "Sweeping Haze Together – Nature's Notebook" in the Shanghai Botanical Garden and the "Sweeping Haze Together – Wetland Recovery" in the wetlands in Shanghai Science & Technology Museum and Dongtan, respectively.

Mengniu not only enthusiastically participated in charity and environmental protection activities, it also infused green concepts into each step of its production process as it was dedicated to enhancing energy efficiency. Mengniu's ecosystem 1+1 project was implemented in June 2014. Through optimization of cleaning schemes, adoption of water management technology and implementation of chemical swaps, Mengniu realized the recycling of water resources, reduced the impact of chemicals to the environment and boosted the operation efficiency of equipment. Mengniu also actively used biofuel boilers and carried out dust removal modification of coal burning boilers; it also recovered and utilized biogas as well as set up solar power projects, contributing its every effort to energy saving and environmental protection. During the year, water consumption and energy consumption per tonne of Mengniu declined 3.7% and 0.28% respectively. In the coming five years, Mengniu plans to make the best use of the advanced technology of its ecosystem partners to develop the world's best energy consumption operation solution within the Group in order to achieve sustainable development goals in saving both water and energy as well as more efficient operations.

During the year, Mengniu improved the "Safe Production Key Control Points Management System" by setting up 333 key control points and 889 signboards. Through developing a comprehensive safety guarantee system and a safety culture promotion promenade, the Group has implemented safe production in a practical manner and created a safe and comfortable working environment for its staff.

Joined by its ecosystem partners and China Agricultural University, Mengniu has launched a venture capital program "Innovative Youths are the Most Beautiful" for nutrition-related projects of university students. This program lasted for around five months and gathered 10 professional mentors to jointly offer training to selected elite students. These students participated in a session introducing the whole research and development process of the Group's products and the outstanding ones were admitted to the "Direct Offer" program so as to nurture next-generation talent and create synergies among the ecosystem alliance partners.

Mengniu's unceasing efforts in fulfilling its social responsibilities have been recognized by the society and its peers. In 2014, Mengniu garnered the socially responsible enterprise of the year award at the fourth "Seven-star Awards". The charity activity "Exchange of Calories" captured the gold award in the sixth "Golden Internet Award" while Mengniu's CSR Report was honored with the "Golden Bee Award for Excellent CSR Reports – Innovative Report Prize". In addition, Mengniu was further named among others, as the Most Socially Responsible Brand Influencing China in 2014 and the Top 10 China Happy Enterprises for 2014.

HUMAN RESOURCES

As of 31 December 2014, the Group has a total of about 38,100 employees in China and Hong Kong, including around 4,950 from Yashili. During the year, total staff costs (including salaries of directors and senior executives) amounted to approximately RMB3,307.9 million (2013: RMB2,793.6 million). The increase was principally caused by the rise in the average salary, social welfare costs as well as the grant of share awards.

With the aim of motivating its staff to grow side-by-side with the Group, Mengniu has put in place a five-tier incentive system that centers around amicable competition and motivation including, in particular, personal performance incentives, group benefit sharing incentives, group over-turnover incentives, group appraisal incentives and group share award scheme. As at 17 April 2014, Mengniu granted 6,055,000 shares under share award scheme, representing approximately 0.34% of Mengniu's issued share capital as at the adoption date, to employees (representing approximately 10% of the total head count of the Group) who have made an outstanding contribution to the Group's sustainable development.

To achieve professional development of its talent in two different fields, Mengniu has launched two talent selection and training programs, namely the "Management 100 Series" and the "Professional 100 Series". The "Management 100 Series" included "Mengniu TOP20", "Mengniu 100", "Mengniu 100 Junior", "Mengniu 100 MT" and "Mengniu 100 GT". For example, under "Mengniu 100", training was provided to 100 management elites from Mengniu, Yashili, Junlebao and Mengniu Danone. The "Professional 100 Series", including "Technology 100, Milk Source 100, Quality 100, and Sales 100", was offering trainings to various professional and technical talents so as to nurture outstanding technical experts.

During the year, Mengniu also applied the "Big Dipper" leadership model (encompassing vision, innovation, teamwork, execution, organization, decision-making and training skills) to recruitment and selection, performance management, talent training and succession plan so as to improve the leadership skills of Mengniu's staff.

PROSPECTS

Given the overall quality improvement in the Chinese dairy product industry, a gradual rebound of consumers' confidence over dairy products and continuous rise in per capita consumption, the domestic dairy product industry will continue to enjoy stable growth momentum. At the same time, industrial upgrade and transformation, coupled with the national support for merger and acquisitions, will further intensify the shuffling and consolidation of the dairy product industry. As one of the leaders in the industry, Mengniu will continue its efforts to capture the development opportunities.

As urbanization accelerates and rural retail networks proliferate, chilled products such as yogurt and lactobacillus drink can now extend their reach beyond first- and second-tier cities to rural counties and towns through the cold chain system, thus enhancing the market penetration and generating a new growth impetus for dairy companies.

In addition to reinforcing its position in the liquid milk market, Mengniu will also speed up its expansion in the UHT, chilled products and milk formula businesses so as to tap into these markets and bolster its business structure. Through in-depth cooperation with worldwide strategic partners in terms of forming joint ventures, sharing technologies, management collaboration joint research and development, etc., Mengniu will accelerate its globalization, integrate its global resources and persist in product innovation and portfolio upgrade. Mengniu will also collaborate with upstream and downstream partners along the value chain to create a win-win ecosystem and foster the sustainable growth of the industry.

To enhance its marketing strength and operating efficiency, Mengniu will focus on channel management and distribution reforms in the most challenging and pressing areas as well as basic aspects such as coverage, penetration and efficiency. With respect to the first-tier cities and some second-tier ones, Mengniu will continue to engage in direct sales so as to respond more quickly to consumers' rapidly changing preferences and tastes. Meanwhile, it will also aggressively promote its CBU structure with the aim of tightening direct control on points-of-sale and enhancing its core competitiveness in key markets.

Serving the consumers using internet technologies and building a topnotch brand are the principal objectives of Mengniu's consumer interaction and product marketing efforts. Mengniu will continue to more closely interact with the consumers through innovative branding activities and utilizing social media. In 2015, Mengniu's strategic cooperation with internet platforms such as Tencent, Didi, JD.com, dianping.com and womai.com is expected to cover 900 million netizens.

Mengniu's internal reforms will continue to center around three aspects, namely "People, System and Culture". Mengniu will strive to establish a more rational, efficient and innovative internal management structure. Through further refining of the SAP intelligent information system, scientific and digitalized management will be enhanced. Adhering to its corporate cultures of "Openness, Integrity, Accountability and Innovation", Mengniu will step up its innovation through the passion and intelligence of each and every staff member.

In an ever-changing world, Mengniu will never waver in its quality, innovation and passionate consumer service. Mengniu will constantly advance towards its goal to become a consumer-oriented and innovation-led food company offering nutrition and health.

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 2014, except that the Chairman of the Board was unable to attend the annual general meeting of the Company held on 6 June 2014 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 2014, 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 2014, 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 12,783,000 the Company's listed securities at a total consideration of about RMB361.3 million.

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 financial statements for the year ended 31 December 2014.

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 2014 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 RMB0.28 (2013: RMB0.2) per ordinary share for the year ended 31 December 2014. Upon shareholders' approval at the forthcoming AGM, the proposed final dividend will be paid on or about Wednesday, 24 June 2015 to shareholders whose names appear on the register of members of the Company on Thursday, 11 June 2015.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed (i) from Wednesday, 3 June 2015 to Friday, 5 June 2015, both days inclusive, for determining shareholders' eligibility to attend and vote at the AGM, and (ii) on Thursday, 11 June 2015, 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, 5 June 2015, 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, 2 June 2015.

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, 10 June 2015.

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. Ning Gaoning, 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, 25 March 2015