



蒙牛

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 2007

FINANCIAL HIGHLIGHTS

For the year ended 31 December	2007	2006
	RMB'000	RMB'000
Revenue	21,318,062	16,246,368
Net profit attributable to equity holders of the Company	935,786	727,352
Net cash from operating activities	2,058,121	1,402,826
Earnings per share (RMB)		
– Basic	0.664	0.532
– Diluted	0.664	0.532
Proposed final dividend per share (RMB)	0.1315	0.1094

- The Group developed more high value-added products through self-innovation, coupled with its product mix optimization and efficient marketing strategies. The Group's revenue increased by 31.2% to RMB21.3181 billion, with net profit attributable to equity holders of the Company reached RMB935.8 million.
- According to an ACNielsen survey conducted in December 2007, the Group held a 40.7% share of the liquid milk market (excluding milk beverages and yogurt) in China in terms of sales revenue, representing an increase against 36.2% in December 2006, continued to champion the market in China.
- In December 2007, the Group operated 22 production bases with a combined annual production capacity of 4.78 million tons.

The board of directors (the "Directors") of China Mengniu Dairy Company Limited (the "Company") is pleased to present the audited results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007, together with the comparative amounts.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	3	21,318,062	16,246,368
Cost of sales		<u>(16,514,557)</u>	<u>(12,524,597)</u>
GROSS PROFIT		4,803,505	3,721,771
Other income and gains		98,096	76,459
Selling and distribution costs		(3,302,020)	(2,380,324)
Administrative expenses		(461,902)	(420,004)
Other operating expenses		<u>(21,829)</u>	<u>(16,712)</u>
PROFIT FROM OPERATING ACTIVITIES		1,115,850	981,190
Interest income		43,566	15,827
Finance costs	5	(50,060)	(63,081)
Share of profits and losses of associates		<u>20,954</u>	<u>8,384</u>
PROFIT BEFORE TAX	4	1,130,310	942,320
Income tax expense	6	<u>(21,658)</u>	<u>(76,032)</u>
PROFIT FOR THE YEAR		<u>1,108,652</u>	<u>866,288</u>
Attributable to:			
Equity holders of the Company		935,786	727,352
Minority interests		<u>172,866</u>	<u>138,936</u>
		<u>1,108,652</u>	<u>866,288</u>
DIVIDENDS			
Dividends paid	7	156,020	93,873
Proposed final dividend	7	<u>187,535</u>	<u>149,718</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (EXPRESSED IN RMB PER SHARE)	8		
Basic		0.664	0.532
Diluted		<u>0.664</u>	<u>0.532</u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	<i>Notes</i>	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		5,042,648	4,160,283
Construction in progress		313,439	348,405
Other intangible assets		31,404	13,204
Land use rights		228,739	128,386
Interests in associates		57,573	40,371
Available-for-sale investments		17,316	15,316
Goodwill		199,143	115,549
Deferred tax assets		6,302	–
Other financial assets		21,139	–
		5,917,703	4,821,514
CURRENT ASSETS			
Inventories		877,443	1,071,460
Bills receivable	<i>9</i>	114,882	128,093
Trade receivables	<i>10</i>	261,365	186,976
Prepayments and deposits		214,364	162,120
Other receivables		40,198	18,386
Pledged deposits		44,506	45,071
Cash and bank balances		2,210,818	1,330,058
		3,763,576	2,942,164
CURRENT LIABILITIES			
Trade payables	<i>11</i>	1,315,395	1,034,699
Bills payable	<i>12</i>	259,065	323,736
Deferred income		11,752	7,889
Accruals and customers' deposits		544,662	406,737
Other payables		1,013,171	1,033,066
Interest-bearing bank loans		183,156	234,022
Other loans		36,004	31,000
Income tax payable		185	6,104
		3,363,390	3,077,253
NET CURRENT ASSETS/(LIABILITIES)		400,186	(135,089)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,317,889	4,686,425

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	80,000	641,136
Long term payables	224,192	292,110
Deferred income	<u>178,993</u>	<u>120,499</u>
	<u>483,185</u>	<u>1,053,745</u>
NET ASSETS	<u>5,834,704</u>	<u>3,632,680</u>
EQUITY		
Equity attributable to equity holders of the Company		
Issued capital	151,277	145,573
Retained earnings	1,547,733	993,822
Other reserves	<u>3,412,619</u>	<u>1,859,469</u>
	<u>5,111,629</u>	2,998,864
Minority interests	<u>723,075</u>	<u>633,816</u>
TOTAL EQUITY	<u>5,834,704</u>	<u>3,632,680</u>

Notes:

1. CORPORATE INFORMATION

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. They are prepared on a historical cost basis except for share options which have been measured at fair value. They are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group for the year ended 31 December 2007. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the day that such control ceases.

Minority interests represent the portion of profit and loss and net assets of the Company's subsidiaries not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from the Company's shareholders' equity. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED IFRSs

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and revised IFRSs and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations during the year. The adoption of these new and revised standards and interpretations did not have any effect on the financial performance or position of the Group and the Company. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 Amendment *Presentation of Financial Statements – Capital Disclosures*
- IFRIC 8 *Scope of IFRS 2*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 10 *Interim Financial Reporting and Impairment*

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

IFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group’s financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Amendment *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group’s objectives, policies and processes for managing capital. The Group has made these new disclosures in the financial statements.

IFRIC 8 *Scope of IFRS 2*

This interpretation requires IFRS 2 to be applied to any arrangements in which the Group cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the share option scheme, the interpretation has had no impact on the financial position or performance of the Group.

IFRIC 9 *Reassessment of Embedded Derivatives*

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no impact on the financial position or performance of the Group.

IFRIC 10 *Interim Financial Reporting and Impairment*

This interpretation requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation had no impact on the financial position or performance of the Group.

3. REVENUE AND SEGMENT INFORMATION

The Group comprises the following business segments:

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

As the Group mainly operates and generates its revenue and results in Mainland China, no geographical segment analysis is presented.

The following tables present the revenue, results and certain asset and liability information for the Group’s business segments for the year ended 31 December 2007:

	2007 <i>RMB’000</i>	2006 <i>RMB’000</i>
Segment revenue:		
Liquid milk products	19,148,856	14,260,929
Ice cream products	1,991,728	1,818,042
Other dairy products	177,478	167,397
	<u>21,318,062</u>	<u>16,246,368</u>
Segment results:		
Liquid milk products	1,249,599	970,207
Ice cream products	85,228	119,610
Other dairy products	(31,994)	24,394
	<u>1,302,833</u>	<u>1,114,211</u>
Unallocated corporate expenses	(186,983)	(133,021)
Profit from operating activities	<u>1,115,850</u>	<u>981,190</u>
Interest income	43,566	15,827
Finance costs	(50,060)	(63,081)
Share of profits and losses of associates	20,954	8,384
Profit before tax	1,130,310	942,320
Income tax expense	(21,658)	(76,032)
Profit for the year	<u>1,108,652</u>	<u>866,288</u>

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Segment assets:		
Liquid milk products	7,042,655	6,049,910
Ice cream products	966,557	1,029,309
Other dairy products	230,324	118,804
Unallocated corporate assets	2,844,220	1,668,720
Eliminations	<u>(1,402,477)</u>	<u>(1,103,065)</u>
Total assets	<u>9,681,279</u>	<u>7,763,678</u>
Segment liabilities:		
Liquid milk products	3,920,366	3,809,625
Ice cream products	470,352	471,854
Other dairy products	165,928	33,655
Unallocated corporate liabilities	692,406	918,929
Eliminations	<u>(1,402,477)</u>	<u>(1,103,065)</u>
Total liabilities	<u>3,846,575</u>	<u>4,130,998</u>
Capital expenditure:		
Liquid milk products	1,071,931	1,300,644
Ice cream products	71,782	86,804
Other dairy products	127,295	7,216
Others	<u>244,053</u>	<u>77,761</u>
	<u>1,515,061</u>	<u>1,472,425</u>
Depreciation and amortisation:		
Liquid milk products	416,032	312,529
Ice cream products	91,862	73,419
Other dairy products	4,718	5,927
Others	<u>17,863</u>	<u>14,671</u>
	<u>530,475</u>	<u>406,546</u>
Other non-cash expenses/(income):		
Liquid milk products	(6,983)	3,304
Ice cream products	(301)	(187)
Other dairy products	3,845	1,489
Others	<u>(51)</u>	<u>27</u>
	<u>(3,490)</u>	<u>4,633</u>

4. PROFIT BEFORE TAX

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

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Cost of inventories sold	16,514,557	12,524,597
Employee benefits expense (excluding directors' remuneration)		
– Wages, salaries, housing benefits and other allowances	800,406	637,377
– Retirement benefits contributions	50,138	33,370
– Share-based payment expense	35,352	3,108
	<u>885,896</u>	<u>673,855</u>
Depreciation of property, plant and equipment	522,706	403,485
Amortisation of land use rights	4,681	1,707
Amortisation of other intangible assets	3,088	1,354
Loss on disposal of items of property, plant and equipment	8,298	1,075

5. FINANCE COSTS

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Interest on long term payables	15,506	14,855
Interest on bank loans wholly repayable within five years	36,830	48,474
Less: Amounts capitalised	(2,276)	(248)
	<u>50,060</u>	<u>63,081</u>

The amounts capitalised are the borrowing costs related to funds borrowed specifically for the purpose of obtaining qualifying assets. The interest rate on such capitalised borrowings during the year was 5.88% (2006: 5.67%) per annum.

6. INCOME TAX EXPENSE

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

Under the PRC income tax law, except for certain preferential treatment available to twenty-one (2006: eighteen) of the Group's subsidiaries, the entities within the Group are subject to CIT at a rate of 33% on the taxable income as reported in their statutory accounts which are prepared in accordance with the PRC accounting standards and financial regulations.

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Current income tax	27,960	76,032
Deferred income tax	(6,302)	–
	<u>21,658</u>	<u>76,032</u>

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

	<i>Note</i>	2007 RMB'000	2006 <i>RMB'000</i>
Profit before tax		<u>1,130,310</u>	<u>942,320</u>
At CIT rate of 33%		373,002	310,966
Non-taxable items and others, net		40,802	90,044
Effect of preferential tax rates	<i>(a)</i>	(44,061)	(94,278)
Effect on tax exemptions	<i>(a)</i>	(330,221)	(225,142)
Utilization of previously unrecognized tax credits		<u>(17,864)</u>	<u>(5,558)</u>
At the effective income tax rate of 1.9 % (2006: 8.1%)		<u>21,658</u>	<u>76,032</u>

Notes:

- (a) Twenty-one (2006: eighteen) subsidiaries were subject to tax concessions in 2007. The total taxable profit of the subsidiaries that are subject to tax concessions amounted to approximately RMB1,134,188,000 (2006: RMB967,939,000) in aggregate. Out of the twenty-one subsidiaries, seventeen (2006: fifteen) subsidiaries were granted tax concessions by the state tax bureau in accordance with the "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" under which these subsidiaries would be exempted from CIT for the first two profitable years and subject to 50% of the applicable tax rate for the following three profitable years. Two (2006: two) subsidiaries were granted tax concessions by the local tax bureau in accordance with the policy of "The Notice of Income Tax Exemption for the Country's Key Enterprises in Agricultural Industries" of the tax authorities. The remaining two (2006: one) were granted a three-year tax exemption by the local tax bureau in accordance with the state tax bureau's policy to aid the new companies established in remote and destitute areas.
- (b) The share of tax attributable to associates amounting to approximately RMB10,428,000 (2006: RMB4,790,000) is included in the share of profits and losses of associates on the face of the consolidated income statement.

7. DIVIDENDS

	<i>Note</i>	2007 RMB'000	2006 <i>RMB'000</i>
<i>Declared and paid during the year</i>			
Equity dividends on ordinary shares		<u>156,020</u>	<u>93,873</u>
<i>Proposed for approval at the AGM</i>			
Equity dividends on ordinary shares:			
Proposed final – RMB0.1315 (2006: RMB0.1094) per ordinary share	<i>(a)</i>	<u>187,535</u>	<u>149,718</u>

Note:

- (a) The proposed total dividend is calculated based on approximately 1,426,120,000 (2006: 1,368,416,000) existing shares in issue. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting (the "AGM"). Such dividend is not recognised as a liability in the consolidated financial statements as at 31 December 2007 but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

8. 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 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 in issue during the year, as used in the basic earnings per share calculation; and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year pursuant to contingent ordinary share provision in IAS 33 *Earnings Per Share*.

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

	2007 Number of shares '000	2006 Number of shares '000
Weighted average number of ordinary shares for the purpose of the basic earnings per share calculation	1,408,911	1,368,416
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all shares options during the year	<u>859</u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	<u>1,409,770</u>	<u>1,368,416</u>

9. BILLS RECEIVABLE

An aged analysis of the bills receivable as at the balance sheet date, based on the invoice date, is as follows:

	2007 RMB'000	2006 RMB'000
Within 3 months	114,832	125,140
4 to 6 months	<u>50</u>	<u>2,953</u>
	<u>114,882</u>	<u>128,093</u>

10. TRADE RECEIVABLES

The Group normally allows a credit period of not more than 30 days to its customers. The Group closely monitors overdue balances. In view of the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The trade receivables are non-interest-bearing.

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

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Within 3 months	226,011	163,944
4 to 6 months	24,136	20,453
7 to 12 months	10,828	2,104
Over 1 year	390	475
	<u>261,365</u>	<u>186,976</u>

11. TRADE PAYABLES

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

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Within 3 months	1,238,629	971,494
4 to 6 months	65,590	51,696
7 to 12 months	7,904	5,623
Over 1 year	3,272	5,886
	<u>1,315,395</u>	<u>1,034,699</u>

12. BILLS PAYABLE

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

	2007 <i>RMB'000</i>	2006 <i>RMB'000</i>
Within 3 months	164,684	221,527
4 to 6 months	94,381	102,209
	<u>259,065</u>	<u>323,736</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Building on the rising demand for dairy products in China, and the Group's innovative products and highly effective promotional strategies, the Group was able to strengthen its industry leadership and market share in the year under review. The Group achieved fruitful results during the year, and its revenue increased by 31.2% to RMB21.3181 billion (2006: RMB16.2464 billion). Net profit attributable to equity holders of the Company increased by 28.7% to RMB935.8 million (2006: RMB727.4 million). Basic earnings per share and diluted earnings per share were both RMB0.664 (2006: RMB0.532), representing an increase of 24.8% compared with 2006.

Gross Profit

During the year under review, the Group recorded a gross profit of RMB4.8035 billion (2006: RMB3.7218 billion), representing an increase of 29.1% as compared with 2006. The Group implemented focused cost control measures, optimized its production processes and enhanced its logistics, warehousing and transportation systems, thus easing the pressure from rising raw material costs. The Group optimized its product mix by launching more high-end functional products, which also helped to minimize the negative impact of increasing costs. The Group's overall gross profit margin for the year maintained at a healthy rate of 22.5%, representing a slightly drop of 0.4 percentage point as compared with 2006.

Operating Expenses

In 2007, the Group recorded operating expenses totalling RMB3.7858 billion (2006: RMB2.817 billion), representing approximately 17.8% (2006: 17.3%) of the Group's revenue. During the year under review, the Group continuously enhanced its operation management system and firmly adhered to its comprehensive budget control system in order to tighten operating expenses and to improve sales and management efficiency.

The Group's selling and distribution costs amounted to RMB3.302 billion (2006: RMB2.3803 billion), representing approximately 15.5% (2006: 14.6%) of the Group's revenue. With the need to implement differential marketing strategies and enhance promotion for new products, the Group launched a great variety of innovative and unique advertising and promotion campaigns to cater for different market segments. As a result, advertising and promotion expenses accounted for 7.2% of the Group's revenue, representing an increase of 0.4 percentage point compared with 6.8% in 2006. These marketing and promotional activities were designed to increase the Group's market share through distinguishing the unique characteristics of the *Mengniu* brand by means of innovative and creative campaigns.

Administrative and other operating expenses amounted to RMB483.8 million (2006: RMB436.7 million), representing a decrease from 2.7% of the Group's revenue in 2006 to 2.3% in 2007. The percentage decrease was mainly benefited from the implementation of a comprehensive management system and stringent control on administrative expenses during the year.

Profit from Operating Activities

The Group's EBITDA for 2007 increased by 19.4% to RMB1.6673 billion (2006: RMB1.3961 billion). Despite the substantial increase in the cost of raw milk and rising advertising and marketing expenses, the Group mitigated the overall cost pressure through operational efficiency improvement and resources allocation optimization during the year, thus enabling it to maintain EBITDA margin at a level of 7.8% (2006: 8.6%).

Net Profit

Despite the keen market competition and rising cost pressure, the Group was able to realize greater economies of scale and optimize its product mix during the year. Its net profit attributable to equity holders of the Company for the year reached RMB935.8 million (2006: RMB727.4 million), representing an increase of 28.7% against 2006.

Capital Structure, Liquidity and Financial Resources

For the year ended 31 December 2007, the Group's net cash inflow from operating activities amounted to RMB2.0581 billion (2006: RMB1.4028 billion). Net cash balances (cash and bank balances net of total bank loans) amounted to RMB1.9477 billion (31 December 2006: RMB454.9 million) as at 31 December 2007, indicating a strong financial position and healthy cash flow status of the Group.

As at 31 December 2007, outstanding bank loans of the Group totaled RMB263.2 million (2006: RMB875.2 million), of which RMB183.2 million was repayable within one year and RMB80 million was repayable beyond one year.

The total equity of the Group increased from RMB3.6327 billion as at 31 December 2006 to RMB5.8347 billion in 2007. The debt-to-equity ratio (total bank loans to total equity) of the Group was 4.5% as at 31 December 2007, 19.6 percentage points lower than the 24.1% recorded in last year.

MARKET REVIEW

With the rapid national economic development and surge in domestic consumption, China dairy industry was presented with precious opportunities for fast growth. According to the statistics of the China Dairy Industry Association, the country has become the world's third largest milk producer and the largest emerging dairy market. According to an ACNielsen survey conducted in December 2007, the moving annual total sales revenue of the country's liquid dairy market had grown more than 20% when compared with 2006. As China dairy market expands and matures, it now assumes growing influence in the global market, and has become one of the largest dairy product markets in the world with the highest potential for growth.

As the China dairy industry matures, the product offerings have seen significant changes with focus now on higher technological content and special functions, reflecting the rising market demand. The industry has emerged from lower-end price competition to high-end competition in production technology. The industry now seeks the pursuit of differential competition for overall long-term healthy industry development.

As the leader of the China dairy industry, the Group continued to increase investment in research and development ("R&D") of technologies for high-end products. In July, it organized the first "International Dairy Festival" in Inner Mongolia and dairy experts and enterprises from all over the world were invited to the summit during the festival. By encouraging exchange of knowledge and expertise among the participants of the summit, the Group has contributed to building a stronger dairy industry in China.

BUSINESS REVIEW

In July 2007, the Group's Hi-tech Dairy Products Research Institute and Intelligent Production Base ("Research Institute") commenced operation. It has presented the Group with an ideal R&D platform to develop new products and improve existing ones, so as to provide customers with more high-quality products that are "natural, pollutant free and rich in taste". During the year under review, the Group proactively improved product packaging, enhanced product functions and strengthened promotional campaigns to target different specific market segments. Such strategies, in turn, succeeded in crafting an outstanding image for *Mengniu* and its products.

According to a survey conducted by ACNielsen in December 2007, the Group had a 40.7% share of the liquid milk market (excluding milk beverages and yogurt) in China in terms of sales revenue, representing an increase against 36.2% in December 2006. The top three liquid milk manufacturers accounted for 68.8% (2006: 68.8%) share of the market in December 2007, evidencing the strong and solid market position of major manufactures in the dairy industry in China.

Branding and Marketing

At the consistent brand building efforts of the Group in the past few years, *Mengniu* is synonymous to high quality in the hearts of customers in China and around the world. During the year, in addition to recognition by the China Society for World Trade Organization Studies as one of the "Ten Most Influential Life Style Brands in China" (「影響中國生活方式十大品牌」), *Mengniu* was also one of the "Most Competitive Brands in the Market" (「最具市場競爭力品牌獎項」) according to the Ministry of Commerce. It was also, for the third consecutive year, on the list of "Top 10 Favorite Brands" (「十大最愛品牌」) in Hong Kong and became the winner of the "Huapu Award – One of the Top 25 Leading Brands in China of the Year" (「品牌中國華譜獎 – 中國年度25大典範品牌」) at the first China Brand Festival. According to domestic market statistics from the Chinese Enterprise Information Center under the National Bureau of Statistics of China, in terms of sale volume, the Group's sales of liquid milk continued to champion the market in China, and almost lead the world. This served as evidence of the Group's solid position in the market as well as customer preference for its products.

During the year, the Group continued to cooperate with national and local TV stations in launching various highly interactive and innovative marketing campaigns (including theme programs), such as "Win in China" (贏在中國), "Mengniu Probiotics Yogurt – Family Let's Go" (蒙牛益生菌酸奶全家總動員) and "Hi-calcium Milk Super Winner" (高鈣奶超級大贏家), to appeal and capture target customer groups from all walks of life. At the same time, the Group also worked closely with Disney, the National Basketball Association ("NBA"), Starbucks and KFC to launch a series of events with the theme of "care, health and nutrition". These programs included "Milk Loving Care" and the "NBA Jam Van for Basketball Fans", both of which aimed at promoting the healthy lifestyle of "Drink more milk and exercise more", which is what *Mengniu* brand represents.

Furthermore, the Group expanded its reach overseas, extending its coverage to overseas market including Singapore, the Philippines and Malaysia. By actively pursuing expansion of overseas markets, the Group hopes to enlarge business coverage and become one of the top 15 dairy companies in the world.

Products

On the product development front, taking product segmentation as its R&D strategy, and with the support from high and innovative technology, the Group optimized existing products and introduced more products with high value functions.

Liquid milk

As the Group's main source of revenue, liquid milk brought in revenue of RMB19.1489 billion, accounting for 89.8% of the Group's revenue for the year. The amount represented a 34.3% growth as compared to RMB14.2609 billion in 2006.

UHT milk

The revenue from UHT milk products grew by 33.4% to RMB12.7747 billion when compared to RMB9.5762 billion last year, accounting for 66.7% of the revenue of the liquid milk segment. In addition to continually enhancing its plain milk products, the Group was able to add into it nutritional grain essence powder, giving *Breakfast Milk* (早餐奶) an even better taste and improving its nutritional value. The move led to strong growth in sales of UHT milk and fortified the segmental customer base. Moreover, building on *Milk Deluxe* (特侖蘇), which won the "IDF Marketing Awards – New Product Development" last year, the Group improved the contents of the products by adding the osteoblast milk protein ("OMP"). OMP gives users a source of calcium and at the same time helps their body to retain calcium. The use of OMP secures the product with strong customer support since its launch, and helps the Group to enlarge its high premium milk product portfolio.

The newly introduced and improved products offered customers more premium choices, that plus rapid economic growth and rising demand for high quality and nutritional products among customers, stimulated strong growth in the Group's UHT milk products. Building on its existing products, the Group has strived for breakthroughs and it plans to launch in 2008, *Milk Deluxe Organic Milk* (特侖蘇有機奶), its first organic milk product, and the *Low-Lactose Milk* (低乳糖牛奶), with boosted dietary fiber content which is easier to be absorbed by the body. The Group will continue to diversify its product lines, so as to offer customers with healthier and higher quality choices.

Milk beverages

Revenue from the milk beverages segment increased by 36.8% to RMB4.9806 billion, accounting for 26% of the liquid milk revenue. During the year under review, the Group actively boosted the nutritional value and flavor of its milk beverage products. It launched a new generation of milk beverage products with probiotic elements. Supported by active and effective promotion programs, sales of the Group's milk beverage products climbed.

During the year, the Group joined hands with Disney and launched two beverage products for children – *Xi Xi Shuang Jelly Drink* (吸吸爽奶凍) and *Xi Xi Shuang Milk Drink* (吸吸爽牛奶) under the *Future Star* series (未來星). These new products, all in packages featuring Disney's cartoon characters, were the favorite choices of both parents and children. Applying advanced technology, the Group also added unique value to its products. By combining rich milk flavor with real fruit pulps, it launched the *Fruit Milk Drink* (真果粒) series, which marked the success of the Group in gaining foothold in various defined market segments.

Yogurt

During the year under review, revenue from the yogurt segment increased by 33.5% to RMB1.3936 billion, accounting for 7.3% of the revenue of the liquid milk segment. Riding on the increasing market recognition of the health benefits of yogurt, the Group launched upgraded and newly flavored products, such as *Champion* (冠益乳) and *Large Fruit Grain Yogurt* (大粒果實酸奶) during the year. All its yogurt products recorded continuous growth in sales.

The Group launched the *Large Grain Fruit Yogurt* (大粒果實酸奶) employing a newly developed technology that enables the addition of fresh fruit pulps into yogurt, enriching its nutrient contents. The Group also launched another product – *Rich Grain Yogurt* (粒多濃酸奶), which is a mixture of selected natural healthy grains, fresh fruit pulps and yogurt, as well as the LABS probiotics. The product is rich in dietary fiber and protein and can protect the intestines. Building on its R&D achievements, the Group will embark on developing new products with high technology contents and added values, which include *Beauty series* (優妍產品) – to offer women consumer additional collagen and polydextrose (利體素); and the *Future Star Yogurt* (未來星兒童酸奶) – rich in nutrients that can foster growth of bones and joints as well as development of the brain and the body of children. These products will allow the Group to enhance competitiveness and the market share of this segment.

Ice cream

The Group continued to improve existing products and enhanced promotion efforts for its ice creams. Accounting for 9.4% of the Group's revenue, ice cream products generated revenue totaling RMB1.9917 billion, representing an increase of 9.6% against last year.

The Group continued to improve the flavors, mouth feel and packaging of its products, and launched a high-end product *Deluxe* (蒂蘭聖雪). This product has become a preferred choice of customers which laid a solid foundation for the Group in the high-end ice cream market. During the year under review, the Group continued to optimize the product structure of the segment and, as such, sales of the segment slacked the overall sales of the Group. The Group had boosted the segment's overall strength and now has a host of new products in the pipeline to be launched soon to targeted customer groups. A series of new products are scheduled to launch in 2008 – On the foundation of the *Sui Bian* series (隨變), the Group improved its image and added probiotic elements to its ready to be launched aromatic *Sui Bian Euro Roll* (隨變歐羅旋) series; the Group cooperated with NBA and Disney, and the respective *New Ice + Basketball Ice* (全新冰+籃球冰) and *Kooka Cup* (酷咔杯) series are also in the pipeline. These ice cream series, which taste better and more refreshing, are introduced with the aim of enhancing profit in this segment.

Other dairy products

During the year, the Group reorganized its dairy products and carried out intensive promotion for products with potential. Revenue from other dairy products amounted to RMB177.5 million, accounting for 0.8% of the Group's revenue. Boasting better quality and a premium brand, as well as advantages as the first mover to the market, *Mengniu* milk powders reported strong and stable sales. The *Mengniu Arla* (蒙牛阿拉) and *Milex* (美蕾滋) product series, which target at the mid- and high-end market respectively, progressed into the market promotion stage and are expected to become profit drivers of the other dairy products operation.

Furthermore, *Smoke-dried Cheese* (熏制乳酪), a product developed by the Group using advanced technology, was introduced to the market in late 2007. With a new product attempt, the Group continues to develop new product and hopes to expand the variety of its dairy products thus providing customers with more choices of high quality dairy products.

Raw Milk Supply

To increase raw milk supply and guarantee its quality, during the year under review, the Group continued to provide raw milk suppliers with training on milk cattle breeding and rearing, as well as prevention of diseases in ranch. Such programs have helped to ensure the consistent high quality of raw milk for production. Furthermore, to monitor raw milk quality and ensure the collection process adheres to the highest hygiene standards, the Group took reference of the national standards for collection and food safety, and mapped out a strict workflow for internal examination of raw milk. Apart from monitoring collection centres and the sanitary conditions of milk trucks, it also scrutinized all the work processes for diligent compliant to all control measures. In addition, the Group also rated the raw milk collected according to a set of strict standards, so as to meet the raw milk needs of different products.

Production and Operation

At its tireless effort in production capacity expansion, in December 2007, the Group operated 22 (2006: 19) production bases with a combined annual production capacity of 4.78 million tons (2006: 3.93 million tons).

In July, the Group's first Research Institute was completed and began operation. Through strategic collaboration with famous domestic and foreign enterprises and R&D institutes such as the University of Cambridge in the UK and the Chinese Academy of Sciences, the new Research Institute has been able to employ the most advanced equipment and intelligent facilities in the world. Being one of the top dairy R&D centers of international standards, the Group has held a number of training programs and international seminars to facilitate industry exchanges since the Research Institute commenced operation. The Group was also able to develop various new technologies, including using the electronic nose technology in comparative testing, application study, as well as in testing actual products. The Group is expected to be able to adopt electronic technologies in wider spectrum of more scientific and systematic sensational tests on its products, thus enhancing quality of its new products.

In addition, the Group continued to standardize quality management and optimize operation management system. The Group continued to access and control the input and output value of each product, on a timely basis, at all stages covering development, marketing and massive sales. After one year's efforts, all production bases attained higher quality and effectiveness in terms of technology, examination, product formulae and quality control.

Ventures and Alliances

During the year, the Group forged new strategic alliances. In January, the Group became the official partner of NBA in China and the exclusive supplier of dairy products, such as liquid milk and yogurt, to all NBA games in the country. At the same time, starting from 2007, the Group has become the designated dairy products supplier for all outlets of Starbucks (the famous special coffee retailer and bakery in the world) in Mainland China. Furthermore, in October, the Group forged alliance with KFC, the largest restaurant chain in the world, to provide *Mengniu* dairy products to nearly 2,000 KFC restaurants across China starting from 2008. Living up to stringent global quality standard, the

Group became a welcomed partner of many international brands. These alliances did not only give recognition to the Group product quality, but also expand its alliance reach, which provided a stronger standing of the Group on the international marketplace.

Industry Exchange

Apart from securing strategic alliances, the Group also actively organized a number of local and international industry exchange events during the year under review. In July, the Group presented the first “International Dairy Festival” in the country, which was attended by representatives of many international dairy associations. During the festival, a summit titled “Pooling International Wisdom to Build the Dairy Capital of the World” was held. In September, the Group, as the only Chinese dairy enterprise on the invitation list, attended the annual meeting of the International Dairy Federation (IDF), the highest level meeting of the global dairy industry. Moreover, the Company also had the honor of making the keynote presentation at the “Summit Forum for Dairy Prairie Industry”. The Group shared its innovative measures and experiences on construction of ranches and milk source bases with representatives of major dairy nations such as Denmark, Britain, Australia and the US. In October, the Group organized a technology research and exchange event titled “The Future of Ingredients and Dairy Products”. A wide range of international ingredient companies from the US, Switzerland, Denmark and the Netherlands participated the event and discussed the status of dairy markets in Europe, the US, Japan, Taiwan and Mainland China. Views on functional raw materials and application technologies were also exchanged during discussions. Through close exchanges with peers and dairy experts from around the world, the Group was able to improve its scientific technology, gain better knowledge of the global market and be equipped with a wider international market perspective, helping it to prepare for taking its business globally.

Social Responsibilities

To support the government’s public health goal encapsulated in the slogan “A catty of milk a day keeps the Chinese people invigorated always”, the Group has commenced a national milk sponsorship program since June 2006. After one year’s efforts, the total number of beneficiaries increased to 1,000 schools. The Group’s efforts resonated with all sectors and groups. In June, the Training Division under the General Administration of Sports, NBA and various well-known international enterprises and organizations decided to join the Group’s “Milk Loving Care” campaign, which allocated more resources to provide milk and nutrition for children across China. In addition, to fulfill its corporate citizen responsibility and contribute to the development of the society, the Group participated in a wide range of social campaigns such as “You must hear our Care – Rescue the Deaf” that more needy could feel the care and warmth from others in the society.

As the leader in the local dairy industry, the Group did not only focus on advancing its business and heightening efficiency, it also take care of the need to protect the environment. With the aim to become a “Dual Green Enterprise”, the Group established an environmental friendly operational system while delivering green products. The Group motivated its partners and has completed building the China’s largest methane power plant in Shengle Economic Zone of Hellingeer, as an important complement to a large ranch. Using such as cow droppings and fermented urine as fuel for power generation and residue from the process for manufacturing organic fertilizer, zero emission of pollutants is achieved contributing to the realization of recyclable economic development.

PROSPECTS

In the future, the China dairy industry is set to become a hotspot of the world. With a 1.3 billion population and a booming economy, and rising living standard, China is fast becoming the largest consumer market in the world. With its rich natural resources and labour as well as fast technological catch up, China will become a major milk-producing country. With various favourable factors, the China dairy industry will be in strong growth momentum unmatched by its counterparts in other parts of the world.

As forerunner in the China dairy market, the Group will actively explore the market and increase investment in R&D, so as to capitalize on the growth momentum of the industry. By introducing international experience and technology, as well as engaging in technology exchange and product development, the Group will be able to add more value to its products and provide a greater variety of nutritious high-end products to more customers.

Share with raw milk suppliers the latest technologies to improve raw milk quality

To improve the quality of raw milk and grow together with suppliers, the Group will continue to provide them with relevant training and technical support. Through closer cooperation and information exchange with foreign players, the Group will endeavour to bring in from all over the world the latest technologies in dairy cattle breeding and rearing, and milk collection to its raw milk suppliers, in order to help them meeting the higher international standards. In addition, to tighten control and monitoring of raw milk quality, the Group will refine its existing quality control plan and also formulate quality improvement plan to raise the quality benchmarks for raw milk sources.

Attain a new milestone in R&D and inspection for development of higher technology content products

Scientific R&D will be one of the Group's development priorities. The Group will refine its products using innovative and advanced scientific equipments and technologies developed from the Research Institute. It will also utilize technologically advanced means, such as electronic nose, electronic tongue as well as sensational judging and management software, to establish a scientific and efficient electronic sensational judgement system, so as to enhance product quality, improve product consistency, prolong product shelf life and incorporate additional product functions. The Group will actively improve its own technology level to keep abreast with world-class standards, so that it can lead China's dairy industry into the international market as the market leader.

Optimize various internal control systems to ensure its operation and products boast the highest relevant standards

The Group has laid a strong foundation for its operation management system, which efficiency has been proved. In the future, the Group will endeavour to improve the system to ensure it operates smoothly at all levels to help the Group optimize its production process and improve efficiency. In addition, the Group will also refine its performance evaluation system to ensure operational targets are clearly defined and conveyed to all departments. To ensure product safety and safeguard the health of customers, the Group enhances its food safety control mechanism by implementing overall quality control on all production units and conducting laboratory examination and approval procedures. Such measures are set to ensure all aspects of its products to meet the highest standards of all the production units.

Be responsible for growth of the industry and China by expanding globally and reciprocating to the society

Looking forward, the Group will seek strategic alliance with international enterprises and strive for aiding the development of the country's dairy industry in terms of technology, hygiene standard and added value to products. The Group will strengthen communication with domestic and international players and leverage the advanced technology and profound experience of industry players in developed countries. It will also seek to play the role of a gateway between China and the world dairy industry, and lead the China dairy industry in exploring the world market.

In addition, through holding charitable activities with various partners, it will make its best efforts to reciprocate to the society, letting more people benefit and feel the support and warmth from other members of the society. To help victims of the disastrous snowstorm in southern China during the Chinese New Year period, on 4 February 2008, the Group, in collaboration with charitable organisations, donated RMB10 million in cash as well as milk products to the Red Cross of China to aid direct relief and rebuilding of affected areas. The Group was the first private enterprise to make donations to the snowstorm victims. The Group will actively honor its social obligations as a leading enterprise, by using its own resources and technology, to contribute to environmental protection and help to build a green society.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

As at 31 December 2007, the Group had approximately 26,000 employees in China and Hong Kong. Total staff costs for the year, excluding directors' remuneration, were approximately RMB885.9 million (2006: RMB673.9 million). To enhance the quality and competence of employees, the Group provided various pre-job and on-the-job training programs to newly joined and existing staff members during the year on, inter alia, the latest industry knowledge and technical and management skills. In addition, the Group also organized various activities which allowed staff members to gain a better understanding of the Group's corporate culture, business concepts and mission. To reward employees and provide work incentives, competitive remuneration packages with performance-based bonuses and share option schemes were provided to staff members.

CORPORATE GOVERNANCE

The Company has adopted the code provisions set out in the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance practices.

None of the Directors is aware of any information that would reasonably indicate that the Company was not at any time during the year ended 31 December 2007 in compliance with the CG Code.

SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. Having made specific enquiry with all Directors of the Company, the Company confirms that the Directors had strictly complied with the Model Code during the year.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries have purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2007.

AUDIT COMMITTEE

The Audit Committee has reviewed with the Company's management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters, including the review of the Group's audited financial statements for the year ended 31 December 2007.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2007 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 RMB0.1315 (2006: RMB0.1094) per ordinary share for the year ended 31 December 2007. Upon shareholders' approval at the forthcoming AGM, the proposed final dividend will be paid on or about 20 June 2008 to shareholders whose names appear on the register of members of the Company on 28 May 2008.

CLOSURE OF REGISTER

The register of members of the Company will be closed from 23 May 2008 to 28 May 2008, both days inclusive, during which period no transfer of shares of the Company can be registered. In order to qualify for the abovementioned proposed final dividends, 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 22 May 2008.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

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

BOARD OF DIRECTORS

As at the date of this announcement, the Executive Directors are Mr. Niu Gensheng, Mr. Yang Wenjun and Mr. Sun Yubin. The Non-executive Directors are Mr. Jiao Shuge (alias Jiao Zhen) and Mr. Julian Juul Wolhardt. The Independent Non-executive Directors are Mr. Wang Huaibao, Mr. Zhang Julin and Mr. Li Jianxin.

APPRECIATION

The board of Directors would like to take this opportunity to express gratitude to our shareholders and the wider community for their continued support, and to all staff for their hard work and commitment.

By order of the Board of Directors

Niu Gensheng

Chief Executive Officer

Hong Kong, 8 April 2008

* *For identification only*