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CHINA MENGNIU DAIRY COMPANY LIMITED

中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL HIGHLIGHTS

	Unaudited	
	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Revenue	14,434,223	12,097,615
Gross profit	3,787,172	3,233,040
Net profit attributable to owners of the Company	618,820	661,898
Net cash inflow from operating activities	1,168,703	1,748,270
Earnings per share (RMB)		
– Basic	0.356	0.424
– Diluted	0.355	0.424

- Following the expanding dairy products market in China, the Group focused more on the R&D of high-end products and continued to upgrade the product portfolio during the reporting review. With the effective marketing campaigns, revenue rose by 19.31% to RMB14,434.2 million.
- The Group further expanded production capacity and its aggregate annual production capacity reached 6.14 million tonnes as of June 2010.
- In the latest Report of Global Dairy Companies issued by Rabobank in June 2010, Mengniu's ranking further jumped from 19th in last year to 16th this year.
- Having "High Quality for a Green Life" as its motto, the Group strived to promote environmental protection and has been named "China's Low Carbon Pioneering Enterprise" and the "Most-Watched Low Carbon Contribution Enterprise", and received the award of "Green Healthy Enterprise", which recognised the Group's innovative achievements in green industry.

The board (the “Board”) of directors (the “Directors”) of China Mengniu Dairy Company Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010, together with the comparative amounts. The interim results and condensed interim financial statements have been reviewed by the audit committee (“Audit Committee”) and the auditors of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		For the six months ended	
		30 June	
	<i>Notes</i>	2010	2009
		RMB'000	RMB'000
Revenue	3	14,434,223	12,097,615
Cost of sales		<u>(10,647,051)</u>	<u>(8,864,575)</u>
Gross profit		3,787,172	3,233,040
Other income and gains		57,242	16,625
Selling and distribution costs		(2,601,746)	(1,942,467)
Administrative expenses		(492,891)	(376,279)
Other operating expenses		<u>(22,875)</u>	<u>(86,688)</u>
Profit from operating activities		726,902	844,231
Interest income		39,270	16,242
Finance costs	5	(21,942)	(47,916)
Share of profits and losses of associates		<u>5,226</u>	<u>7,530</u>
Profit before tax	4	749,456	820,087
Income tax expense	6	<u>(72,584)</u>	<u>(97,726)</u>
Profit for the period		<u>676,872</u>	<u>722,361</u>
Attributable to:			
Owners of the Company		618,820	661,898
Non-controlling interests		<u>58,052</u>	<u>60,463</u>
		<u>676,872</u>	<u>722,361</u>
Earnings per share attributable to ordinary owners of the Company (expressed in RMB per share)	7		
– Basic		0.356	0.424
– Diluted		<u>0.355</u>	<u>0.424</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 30 June 2010 <i>RMB'000</i>	Audited 31 December 2009 <i>RMB'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		4,982,424	4,919,608
Construction in progress		293,486	326,679
Land use rights		396,987	367,191
Goodwill		199,143	199,143
Other intangible assets		29,730	31,637
Interests in associates		71,368	67,383
Available-for-sale investments		17,409	17,409
Deferred tax assets		128,846	131,741
Other financial assets		36,112	20,868
		<u>6,155,505</u>	<u>6,081,659</u>
CURRENT ASSETS			
Inventories		934,560	714,897
Bills receivable	9	29,682	52,449
Trade receivables	10	567,066	527,303
Prepayments and deposits		626,820	272,627
Other receivables		86,602	66,202
Pledged deposits		218,883	230,968
Cash and bank balances		6,562,897	6,150,021
		<u>9,026,510</u>	<u>8,014,467</u>
CURRENT LIABILITIES			
Trade payables	11	2,332,557	1,531,366
Bills payable	12	899,438	808,409
Deferred income		13,204	13,162
Accruals and customers' deposits		430,282	559,291
Other payables		998,748	1,211,172
Interest-bearing bank loans		446,085	323,593
Other loans		106,947	106,947
Income tax payable		24,051	–
		<u>5,251,312</u>	<u>4,553,940</u>
NET CURRENT ASSETS		<u>3,775,198</u>	<u>3,460,527</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>9,930,703</u>	<u>9,542,186</u>

	Unaudited	Audited
	30 June	31 December
	2010	2009
<i>Notes</i>	RMB'000	RMB'000
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	150,000	350,000
Long term payables	33,615	49,879
Deferred income	232,096	230,613
	<u>415,711</u>	<u>630,492</u>
NET ASSETS	<u>9,514,992</u>	<u>8,911,694</u>
EQUITY		
Equity attributable to owners of the Company		
Issued capital	178,613	178,611
Retained earnings	1,668,141	1,294,766
Other reserves	7,285,254	7,102,301
	<u>9,132,008</u>	<u>8,575,678</u>
Non-controlling interests	382,984	336,016
TOTAL EQUITY	<u>9,514,992</u>	<u>8,911,694</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. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2009.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those in the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of the following new or revised standards and interpretations as of 1 January 2010. The adoption of these interpretations did not have any material impact on the financial position or operating results of the Group in the unaudited interim condensed consolidated financial statements for the current period.

- *IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions*

The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

- *IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position nor performance of the Group.

- *IFRIC 17 Distribution of Non-cash Assets to Owners*

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position nor performance of the Group.

Improvements to IFRSs (issued May 2008)

In May 2008, the IASB issued its first omnibus of amendments to its standards. All amendments issued are effective for the Group as at 31 December 2009, apart from the following:

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: Clarifies when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and had no impact on the financial position nor financial performance of the Group.

Improvements to IFRSs (issued April 2009)

In April 2009 the IASB issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- *IFRS 8 Operating Segment Information*: Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 3.
- *IAS 7 Statement of Cash Flows*: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement. The Group has no such transaction in the current period.
- *IAS 36 Impairment of Assets*: The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- *IFRS 2 Share-based Payment*
- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*
- *IAS 1 Presentation of Financial Statements*
- *IAS 17 Leases*
- *IAS 38 Intangible Assets*
- *IAS 39 Financial Instruments: Recognition and Measurement*
- *IFRIC 9 Reassessment of Embedded Derivatives*
- *IFRIC 16 Hedge of a Net Investment in a Foreign Operation*

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

3. REVENUE AND SEGMENT INFORMATION

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

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

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax 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 at cost 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.

The following tables present the revenue, profit and certain asset and liability information for the Group's operating segments:

For the six months ended 30 June 2010 (Unaudited)	Liquid milk products RMB'000	Ice cream products RMB'000	Other dairy products RMB'000	Intersegment eliminations RMB'000	Consolidated RMB'000
Segment revenue:					
Sales to external customers	12,462,199	1,821,086	150,938	–	14,434,223
Intersegment sales	38,072	616	10,261	(48,949)	–
Total	<u>12,500,271</u>	<u>1,821,702</u>	<u>161,199</u>	<u>(48,949)</u>	<u>14,434,223</u>
Segment results	928,884	8,151	(2,407)	–	934,628
Interest income					39,270
Finance costs					(21,942)
Share of profits and losses of associates					5,226
Unallocated corporate expenses					<u>(207,726)</u>
Profit before tax					749,456
Income tax expense					<u>(72,584)</u>
Profit for the period					<u><u>676,872</u></u>
At 30 June 2010 (Unaudited)					
Assets and liabilities					
Segment assets	8,884,012	1,337,590	374,831	–	10,596,433
Unallocated corporate assets					6,932,897
Intragroup elimination					<u>(2,347,315)</u>
Total assets					<u><u>15,182,015</u></u>
Segment liabilities	4,874,232	901,554	256,873	–	6,032,659
Unallocated corporate liabilities					1,981,679
Intragroup elimination					<u>(2,347,315)</u>
Total liabilities					<u><u>5,667,023</u></u>

For the six months ended 30 June 2009 (Unaudited)	Liquid milk products <i>RMB'000</i>	Ice cream products <i>RMB'000</i>	Other dairy products <i>RMB'000</i>	Intersegment eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Segment revenue:					
Sales to external customers	10,287,461	1,657,686	152,468	–	12,097,615
Intersegment sales	<u>32,373</u>	<u>15,072</u>	<u>1,019</u>	<u>(48,464)</u>	<u>–</u>
Total	<u>10,319,834</u>	<u>1,672,758</u>	<u>153,487</u>	<u>(48,464)</u>	<u>12,097,615</u>
Segment results	940,795	71,462	(7,167)	–	1,005,090
Interest income					16,242
Finance costs					(47,916)
Share of profits and losses of associates					7,530
Unallocated corporate expenses					<u>(160,859)</u>
Profit before tax					820,087
Income tax expense					<u>(97,726)</u>
Profit for the period					<u><u>722,361</u></u>
At 31 December 2009 (Audited)					
Assets and liabilities					
Segment assets	8,398,855	1,172,153	336,725	–	9,907,733
Unallocated corporate assets					7,059,351
Intragroup elimination					<u>(2,870,958)</u>
Total assets					<u><u>14,096,126</u></u>
Segment liabilities	5,139,046	766,052	216,681	–	6,121,779
Unallocated corporate liabilities					1,933,611
Intragroup elimination					<u>(2,870,958)</u>
Total liabilities					<u><u>5,184,432</u></u>

4. PROFIT BEFORE TAX

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

	Unaudited	
	For the six months ended	
	30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold	10,647,051	8,864,575
Depreciation of property, plant and equipment	338,772	332,559
Amortisation of land use rights	4,438	3,660
Amortisation of other intangible assets	2,194	2,417
Employee benefit expense (excluding directors' fees)	<u>767,409</u>	<u>625,166</u>

5. FINANCE COSTS

	Unaudited For the six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Interest on bank loans wholly repayable within five years	18,854	42,413
Interest on long term payables	3,088	5,503
	<u>21,942</u>	<u>47,916</u>

6. INCOME TAX EXPENSE

The major components of income tax expense in the condensed consolidated income statement are:

	Unaudited For the six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Current income tax		
Current income tax charge	69,689	47,843
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences	2,895	49,883
	<u>72,584</u>	<u>97,726</u>

- (a) Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the period.
- (b) The tax charge represents the provision for PRC corporate income tax ("CIT") for the period at the prevailing tax rates applicable thereto.

During the period, certain PRC subsidiaries were subject to tax exemption in accordance with (i) the Corporate Income Tax Law of the People's Republic of China and the corresponding transitional tax concession policy; (ii) "The notice of preferential tax policies for companies located in West China"; and (iii) "The notice of preferential tax policy for preliminary processing of agricultural products".

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY

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

The share options outstanding had no dilutive effect on the calculation of diluted earnings per share for the six months ended 30 June 2009. For the six months ended 30 June 2010, the diluted earnings per share amount is calculated by dividing the profit for the period attributable to ordinary owners of the Company by the weighted average number of ordinary shares in issue during the period, 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 period pursuant to contingent ordinary share provision in IAS 33 *Earnings Per Share*.

The following reflects the profit and the number of shares used in the basic and diluted earnings per share calculations:

	Unaudited	
	For the six months ended	
	30 June	
	2010	2009
	RMB'000	RMB'000
Profit attributable to ordinary owners of the Company	618,820	661,898
	Number of	Number of
	shares	shares
	(in thousand)	(in thousand)
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	1,737,198	1,561,663
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the period	3,560	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	1,740,758	1,561,663

8. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: nil). During the six months ended 30 June 2010, the Company declared and paid final dividends of RMB0.1413 (six months ended 30 June 2009: nil) per share as proposed for the year ended 31 December 2009 to the shareholders of the Company.

9. BILLS RECEIVABLE

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

	Unaudited	Audited
	30 June	31 December
	2010	2009
	RMB'000	RMB'000
Within 3 months	29,647	51,949
4 – 6 months	35	500
	29,682	52,449

10. TRADE RECEIVABLES

The Group normally allows a credit period of not more than 30 days to its customers which is extendable in certain circumstances. The Group closely monitors overdue balances. In view of the aforementioned and that 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:

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Within 3 months	522,044	471,122
4 – 6 months	31,783	46,112
7 – 12 months	11,402	7,243
Over 1 year	1,837	2,826
	<u>567,066</u>	<u>527,303</u>

11. TRADE PAYABLES

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

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Within 3 months	2,274,070	1,463,848
4 – 6 months	48,496	63,708
7 – 12 months	9,175	2,868
Over 1 year	816	942
	<u>2,332,557</u>	<u>1,531,366</u>

12. BILLS PAYABLE

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

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Within 3 months	565,611	712,105
4 – 6 months	333,827	96,304
	<u>899,438</u>	<u>808,409</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Following the expanding dairy products market in China, the Group focused more on the R&D of high-end products and continued to upgrade the product portfolio during the period under review. With the effective marketing campaigns, revenue of the Group increased by 19.31% to RMB14,434.2 million for the six months ended 30 June 2010 (2009: RMB12,097.6 million). The rise in revenue also underscored a satisfactory increase in turnover during the period. Profit attributable to owners of the Company was reported at RMB618.8 million (2009: RMB661.9 million). Basic earnings per share was RMB0.356 (2009: RMB0.424).

Gross profit

The Group recorded a gross profit of RMB3,787.2 million (2009: RMB3,233 million), representing an increase of 17.14% compared with the same period last year. Despite the substantial increase in price of raw milk and other raw materials, the Group was able to offset the impact by increasing the proportion of high-end functional products, continuously refining its product portfolio and exercising stringent cost control measures, consequently maintaining overall gross margin at 26.2% (2009: 26.7%).

Operating Expenses

In the first half of 2010, the selling and distribution costs of the Group amounted to RMB2,601.7 million (2009: RMB1,942.5 million), accounting for 18% of the Group's revenue (2009: 16.1%). Included in these costs, the percentage of advertising and promotion expenses to the Group's revenue was 8.1% (2009: 8.7%). The increase in the percentage of selling and distribution costs to the Group's revenue was primarily attributed to a rise in transportation, leasing fees and other distribution costs.

Administrative and other operating expenses amounted to RMB515.8 million (2009: RMB463 million), accounting for 3.6% of the Group's revenue (2009: 3.8%). The percentage of overall administrative and other operating expenses to revenue was down from the last corresponding period mainly due to the Group's ability to improve resources allocation and utilization efficiency by optimizing its operation and management system, and the reduction of provision for inventory.

Profit from Operating Activities

The Group's EBITDA for the period was RMB1,077.5 million (2009: RMB1,190.4 million), while EBITDA margin was 7.5% (2009: 9.8%). The Group's EBITDA margin for the period was comparable with the 7.8% in the full year of 2009.

Capital Structure, Liquidity and Financial Resources

For the six months ended 30 June 2010, the Group's net cash inflow from operating activities amounted to RMB1,168.7 million (2009: RMB1,748.3 million). Net cash balances (cash and bank balances net of total bank loans) reached RMB5,966.8 million (31 December 2009: RMB5,476.4 million) as at 30 June 2010, indicating that the Group had a strong financial position and healthy cash flow.

As at 30 June 2010, the outstanding bank loans of the Group amounted to RMB596.1 million (31 December 2009: RMB673.6 million), of which RMB446.1 million (31 December 2009: RMB323.6 million) was repayable within one year and RMB150 million (31 December 2009: RMB350 million) was repayable beyond one year. Bank loans in the amount of RMB246.1 million (31 December 2009: RMB323.6 million) was fixed interest-bearing.

The total equity of the Group was RMB9,515 million as at 30 June 2010 (31 December 2009: RMB8,911.7 million). The debt-to-equity ratio (total bank loans over total equity) of the Group was 6.3% (31 December 2009: 7.6%).

The Group's finance costs for the period amounted to RMB21.94 million (2009: RMB47.92 million), representing approximately 0.2 % of the Group's revenue (2009: 0.4%).

MARKET REVIEW

Driven by the state's policy of "Adjusting Structure and Promoting Consumption", China's dairy industry has entered into a booming period in the first half of 2010. China's vast consumer base, together with the rising spending power and structural economic improvement accompanied by the sustained rapid economic growth, has created huge market potential and unlimited business opportunities for dairy industry players in China.

As a leader in China's dairy industry, Mengniu has further leaped higher in terms of its ranking in the international dairy arena by continuously attaching importance to the quality of its raw materials, production process and product lines. According to the latest Report of Global Dairy Companies issued by Rabobank in June 2010, Mengniu's ranking jumped from 19th last year to 16th this year, heading towards its goal of becoming one of the world's top ten dairy companies.

BUSINESS REVIEW

Mengniu further lifted its standards and requirements in raw milk, production, operation, marketing, research and development. The remarkable results recorded in the first half of 2010 have laid a good foundation for the sustainable development of the Group.

As for raw milk sources, the Group has continued to devote more resources and adopted an integrated development model by taking a variety of important measures, such as investing in large scaled ranches, offering entrusted loans, prepaying for raw milk and constructing milk farm facilities etc. These measures were aimed at further strengthening the construction of raw milk facilities and ensuring the quality and quantity of raw milk meeting the development needs of the Group. Currently, more than 70% of raw milk is sourced from the integrated dairy ranches and less than 30% is from dairy farmers. This proportion is far better than the average level of the industry, and ensures the stable, safe and sustainable growth of raw milk supply.

The Group has continued to optimise its management in production, operation and sales processes, to reduce waste, boost operational efficiency and gradually reduce inefficient use of resources in product categorisation. After improving functions of its internal management, the Group would then be in a position to bring the business structure up to the standard of leading international enterprises.

The Group's business development objective has been committed to not only a quantitative increase but also more importantly, an improvement in quality, in an effort to pursue sustainable development. Mengniu proactively takes the responsibility of providing a healthy and quality lifestyle for consumers by securing quality raw milk supply and constantly launching high-end products by incorporating premium features to enhance customers' satisfaction. As a leading industry player devoted to the fulfilment of corporate social responsibility, Mengniu regards a "Green Strategy" as an unswerving guideline for its development strategy. The Group spares no efforts in creating a green and harmonious golden industry chain based on ecological grasslands, and provides each consumer with green ecological products by using prime quality natural and pure raw milk supplied by dairy ranches, which also conveys a green and low carbon message to the public.

Branding and Marketing

During the period under review, the Group was the first company in China's dairy industry to launch its "Green Strategy", complemented by a series of branding and marketing activities. The slogan "High Quality for a Green Life" (好品質，綠生活) reflected its commitment to consumers and the community, and determination to lead a "Green Change" (綠色轉變) in operations as well as in economic development and lifestyle.

Earlier this year, the Group has joined the National Green Committee (國家綠化委員會) and the community-service organisation "Eco-China" to launch the "China Ecoranch" (中國生態草原) programme and create the "China Ecoranch Fund" to arouse the awareness of the society on the protection of both pasture lands and the ecosystem. During the World Expo 2010 Shanghai, the Group embarked on the large-scale eco-activity campaign "Eco-Action for Green China" (生態行動，助力中國) to encourage the society to care about and participate in the building of an ecological-friendly China and a green lifestyle. Specifically, the main exhibition hall of the "Mengniu Dairy Pavilion" displays Mengniu's environmental-friendly production process and the eco-industrial park through a 360-degree panorama screen. This has enhanced the recognition by consumers of the Green concepts promoted by Mengniu and thus aims to convince the society that green development is an effective way to achieve sustainable growth. Meanwhile, the "Future Dairy Pavilion", in which a virtual future dairy world is presented through 3D technology, allows consumers to experience the vitality of the modern dairy industry and the ecologically sustainable future. Mengniu also promotes the concept of green living by launching a series of activities on location or through the Internet, such as the "Ecological Signature" (生態大簽名) and the "Carbon Test" (碳測試), enabling consumers to conveniently participate in the low carbon and green community activities. These green-themed promotion campaigns effectively highlight the green ecological image of *MENGNIU* and the Group's commitment to social responsibility.

At the vanguard of encouraging eco-friendly production in China's dairy industry, Mengniu's initiative in environmental protection has won wide acclaim. The Group has not only been named "China's Low Carbon Pioneering Enterprise" (中國低碳新銳企業) at the "2010 China Low Carbon Economy Forum" (2010中國低碳經濟論壇), but has also received the award of the "Most-Watched Low Carbon Contribution Enterprise" (最受關注的低碳貢獻企業) at the "First Annual Meeting of the Low Carbon China Forum" (低碳中國論壇首屆年會). It ranked 28th in "2010 Best Chinese Brands" (2010中國最佳品牌價值排行榜) compiled by *Forbes* and Interbrand, as the only dairy brand in China to be included within the roll.

The Group initiated a “Special Consumer Reception Month” (消費者特別接待月) campaign where the CEO of the Group met with consumers and answered their questions in person, and allowed consumers to witness the whole process for producing Mengniu’s milk with natural ecological quality. The Group’s high transparency and accountability to consumers has won their support and trust, which the Group believes to have helped **MENGNU** in earning honours in various consumer surveys conducted by competent authorities, including the “Most Reliable Food Brand” (最受信賴食品品牌), “Most Popular Food” (最佳人氣食品) and “Most Favourite Milk Brand of Beijing Residents” (首都消費者最喜愛牛奶品牌). Moreover, *Milk Deluxe* (特侖蘇), Mengniu’s high-end product, was named as “Beijing Female Consumer’s Favourite Milk Brand” (最受北京女性消費者喜愛的牛奶品牌), while *Fruit and Vegetable Suan Suan Ru* (果蔬酸酸乳) was honoured as “College Students’ Favourite Brand” (最受大學生歡迎獎) and *Suan Suan Ru* (酸酸乳) was named as “Most Satisfied Brand in the Shanghai Milk Beverage Industry” (上海城市乳飲料行業公眾滿意度金獎).

Products

The Group introduced various high-end ecologically friendly and healthy dairy products, and continued to make improvements and innovation in taste, packaging and nutrition while further consolidating its market share by enriching product line.

Liquid milk

Revenue from the liquid milk segment amounted to RMB12,462.2 million (2009: RMB10,287.5 million), grew by 21.1% from the corresponding period of last year, accounting for 86.4% (2009: 85%) of the revenue of the Group as its major income source.

UHT milk

Revenue from UHT milk products reached RMB7,604.6 million (2009: RMB6,339.1 million), representing an increase of 20% as compared with last year, accounting for 61% (2009: 61.6%) of liquid milk segment revenue. *Milk Deluxe* (特侖蘇), a high-end product series, added a new product *Milk Deluxe Chunxian* (特侖蘇醇纖), with phytosterol esters and food fiber offered to attain nutritional balance. *Xin Yang Dao Low-Lactose Milk* (新養道低乳糖牛奶), the flagship product of the *Xin Yang Dao* (新養道) series, which was prominent among middle to high-end functional milk products because of its nutritional value and easy digestion feature, was awarded a gold prize at the “China International Nutrition & Health Industry Expo Shanghai” (中國國際營養健康產業博覽會). The *XinYang Dao Zhenyang Milk* (新養道珍養牛奶), a new product of this series, has combined donkey-hide, red jujube and medlar, considered to be beneficial to health in the Orient. Based on existing *Wisdom* (智慧型) and *Vitality* (活力型) products, the *Future Star Milk* (未來星兒童奶) series launched a new product called *Youhu* (優護型), which catered for the overall development of children’s brains, bones, and digestive systems. This series was upgraded as a whole during the period by adding DHA algal oil using advanced technology. The *Future Star Milk* (未來星兒童奶) series was not only recognised as the first children’s liquid milk in China designed for the need of children’s growth and development, but also garnered an Innovative Product Award at the French International Food and Beverage Exhibition (SIAL) (法國SIAL國際食品展) and a Monde Selection prize by Belgian International Institute for Quality Selections, testimony to Mengniu’s leading position in the children dairy market.

Milk beverages

Revenue from the milk beverages segment was RMB3,562.4 million (2009: RMB2,954 million), increased by 20.6% from the corresponding period of last year, accounting for 28.6% (2009: 28.7%) of the liquid milk segment revenue. Through the promotional campaign entitled “China’s Top of the PopChart – MusicRadio – Music Dream Campus Tour” (MusicRadio 中國TOP排行榜音樂夢想學院校園行), the Group enhanced the trendy brand image of its *Suan Suan Ru*. The *Suan Suan Ru* (酸酸乳) series has become even more popular among the young generation, while one new flavour – papaya has been added to the *Fruit and Vegetable Suan Suan Ru* (果蔬酸酸乳) series, thus offering more choices for consumers. Along with the breakthrough in sales volume of fruit milk, the promotional campaign themed “900 Million Reasons for Loving Fruit Milk” was launched to clearly define the brand image of “Fashionable, High-end and Leadership”. In addition, *Fruit-fiber Milk* (果纖乳), a new generation of fruit juice milk beverages with fruit fiber, was introduced to the market during the period, and was packaged in distinctive plastic bottles for easy drinking. Meanwhile, *Nai Te* (奶特), a new series of high-end fruit flavoured milk beverages, has banana fiber added to boost the movement of stomach and intestines. It has been designed to cater for consumers’ appetite for a product that is beneficial for the functions of the human intestine.

Yogurt

Revenue from the yogurt segment increased by 30.2% to RMB1,295.2 million (2009: RMB994.4 million), accounting for 10.4% (2009: 9.7%) of the liquid milk segment revenue. The pursuit of a natural, healthy and enjoyable product has remained the focus in creating high-end yogurt products of the Group. *Champion* (冠益乳) obtained national certification as a healthy product. Thus further strengthening its leading position among high-end yogurt products. This product was promoted at the activity entitled “Public Welfare Popular Science Classroom” on the “World Intestine Health Date” to arouse public awareness of the benefits of yogurt for the health of human digestive system, thus establishing *Champion* (冠益乳) as the first brand of yogurt. *Red Jujube Yogurt* (紅棗酸牛奶), incorporating the Chinese traditional nourishment concept, has been welcomed by the market for its good taste, recording remarkable sales. *Grain Yogurt* (穀物酸牛奶), an ideal alternative to conventional meals, is readily edible and contains a full range of nutrition, has been launched to cater for the rapid rhythm of urban life, and has become a new favourite of young white-collar workers.

Ice cream

Revenue of the ice cream segment amounted to RMB1,821.1 million (2009: RMB1,657.7 million), accounting for 12.6% (2009: 13.7%) of the revenue of the Group, up by 9.9% from the corresponding period of last year. The product lines were gradually optimised during the period to include low-end, mid-range and high-end ice-cream brands, particularly strengthening the mid-to- high-end products. The Group has also set a long-term branding strategy to secure sustainable development for all product lines. The seasonal fluctuation in consumption of ice cream has been diminishing along with the increasing popularity of ice cream as a leisure dessert. The Group has kept abreast with this trend and has vigorously strived to boost the sales of leisure products in the low season. The marketing campaign themed “Endless Joy with One More” was initiated to build a “ready-for-change” (勇於改變) brand image for *Sui Bian* (隨變) products, and a number of new flavors with additional ingredients including whole hazelnuts and big walnut seeds, tailored for the new generation of targeted sophisticated consumers, were launched to improve the popularity of the brand among the fashionable young generation. The *Mood for Green* (綠色心情) series, in addition to the traditional flavour with green beans as the main ingredient, has been supplemented with condensed milk, red beans and honey melon to offer consumers multiple taste sensations for enjoyment and refreshment.

Other dairy products

Revenue from other dairy products amounted to RMB150.9 million (2009: RMB152.4 million), accounting for 1% (2009: 1.3%) of the revenue of the Group. In regard of milk powder, *ChaoJin Zhuang Zhi Jiayi TM* (超金裝智佳益TM), a new product of **MENGNIU ARLA** (蒙牛阿拉), was launched with the nutrition formula increasing the amount of probiotics fourfold to improve the intelligence and immune systems of infants. Meanwhile, the official website of **MENGNIU ARLA** has been formally put into operation to offer a wide range of services including an online baby-care centre and parents-child club for members, aiming to witness together with parents the healthy growth of their babies day-by-day.

For cheese, the Group has continuously introduced new cheese products according to the preference of Chinese consumers to enhance market penetration. At current, the Group has established product series including *Distingue Elegant Life Cheese* (締芝特優雅生活), *Distingue Family Breakfast Cheese* (締芝特家庭早餐) as well as *Growth Cheese* (成長). The Group has also innovatively launched cheese snack products including *Cheese Mate* (酪伴) and developed four main categories of cheese, namely *Breakfast Cheese*, *Cheese for Children*, *Fresh Cheese* and *Leisure Cheese*. *Distingue Fresh Cheese* (締芝特新鮮奶酪) is soft with a fresh milk flavor, for which a new way of eating cheese has been created with the inclusion of original strawberry jam or newly launched blueberry jam. These products have been selling well in the market.

Quality Control

The Group has been cautious in its approach to quality control during the period. On top of the existing measures, the Group has further strengthened the monitoring and enhancement procedures on the quality of raw milk, with supervision applied to all aspects of production, including individual dairy cattle, grazing and milking environment, milking equipment, transportation time etc. Meanwhile, the Group accords top priority to consumers' health, and has extended the monitoring scope of raw milk quality from the milk itself to tracing the safety of feed and veterinary drugs, in the quest to provide consumers with high quality products. This preemptive management model on raw milk quality is a pioneer in the industry.

Production and Operation

The Group continued to expand production capacity, raising it to an aggregate of 6.14 million tons a year (December 2009: 5.76 million tons) as at June 2010.

Mengniu's Dairy Research Institute & High-Tech Production Base has already been put into operation. The base integrates teaching, training, R&D, testing, production, storage and the reception of visitors, and has attained leading international standards in the dairy industry for energy utilisation, architectural style, logistics zoning and more. It has become a model for the modern dairy production base.

During the period, the Overseas R&D Center (Paris) of the Group, jointly set up by Mengniu and the Danisco Group, was formally established, marking a milestone of Mengniu's international strategy. The R&D Center will effectively integrate overseas technology resources, reduce the basic research cost and shorten the research period. Thus, it will enhance the Group's technical strength and upgrade its international competitiveness.

Joint Ventures and Alliances

Besides exploring the feasibility of forming a strategic alliance with COFCO, the Group also continued to strengthen partnerships with leading enterprises within a variety of industries, broaden sales channels and expand product sales through specialised channels, including airlines, airports, gasoline stations, railway stations, hotels, theatres and fast-food chains, etc.

Industry Exchange

As a pioneer in China's dairy industry, the Group believes it has responsibility to lead a healthy development of the industry as a whole. Towards that end, the Group continuously provides dairy farmers with on-going technical support services through the Mengniu Service Centre for Designated Collection Facilities. External livestock nutritionists, equipment engineers and other experts appointed by the Group had visited milk stations and proposed solutions to solve such problems as low milk protein, low density and other inferior nutrition indicators for milk. The Group also provided dairy farmers with training on dairy cattle feeding, disease prevention and equipment operation as well as guidance for on-site cattle husbandry skills, aiming to improve the technical level of farmers in the raw milk areas and ranches.

Meanwhile, the Group also actively participated in a number of academic exchanges and cooperation activities, including research projects jointly undertaken by China Agricultural University and the Group for the country's Eleventh Five-Year Plan. Research papers by the Group on timely topics such as natural nutrition, functional health, product development and innovation were published in "China Dairy Industry" and other authoritative journals, for the purpose of exchanging ideas with its peers and achieving common progress in the dairy industry.

Social Responsibility

Keeping its promise of "Quality products for green life" to consumers and society, Mengniu initiated a green campaign within the dairy industry to jointly construct a "Green Industry Chain" by preferably selecting suppliers and partners following green and low-carbon practices. It also announced the plan to use new packaging materials which had passed the Forest Certification System and were environmentally friendly. These measures are its practical deeds to promote the development of green dairy procedures. In the meantime, by exerting a subtle influence on its customers, the Group has transmitted the concept of "Green Consumption". To allow more consumers understand that milk cartons are recyclable, the Group carried out a public ecological activity of "Press it flat after drinking and support the recycling of milk cartons" in various communities. With the support of communities and volunteers, Mengniu effectively promoted the recycling packaging materials and the sustainable development of the ecological environment. Furthermore, Mengniu and Ecological China Committee jointly organised a large-scale public benefit activity of "100 Acts for Saving the Earth" (拯救地球100個行動), aiming to provide a platform for enterprises, communities and individual volunteers who are devoted to the protection of the environment and to attract more social attention to environment protection.

In addition to promoting a series of activities such as "China Milk Caring Acts" (中國牛奶愛心行動), the Group has also carried out the programme of "Love Gifts" for school children. The widespread public interest and extensive participation in the programme won support from millions of "netizens". Hundreds of gifts were subscribed enthusiastic netizens to help children in need to realise their dreams.

OUTLOOK

From 2010 onwards and for the foreseeable future, China's dairy industry will enter into a continuous, rapid and healthy development stage. Based on the "Dairy Product Industrial Policies (2009 Revision)" (《乳製品工業產業政策(2009年修訂)》) and "Technical Regulations for Standardisation Management on Raw Milk Collection Centres" (《生鮮乳收購站標準化管理技術規範》), in early 2010, China's Ministry of Health promulgated 66 new national safety standards for dairy products including raw milk (《生乳》) (GB19301-2010) in early 2010, which further promoted the sound development of China's dairy industry towards the concept of green and eco-friendly production.

Being one of the world's top 16 dairy enterprises symbolises a milestone in the Group development. Based on this solid foundation, Mengniu aims to become one of the world's top 10 dairy enterprises. On the one hand, it plans to focus on R&D to develop healthy functional dairy products while producing high-end products of domestic top level and international first-class level to lead the market. On the other hand, the Group intends to continuously increase the proportion of milk sources from eco-friendly ranches and further attain a competitive edge in milk sources to lead the industry in building a "green-gold" industry chain for dairy products.

More Innovation and R&D in Nutritious and Healthy Products to Protect Consumers' Health

The Group's R&D centre will strengthen its efforts in products based on nutrition and health requirements, promote the development of functional products under the "Jian Zi" label (健字號), and focus on market demand to meet the increasing expectations from consumers. Meanwhile, through international cooperation and relying on advanced external sources, the Group will gain access to international first-class dairy production technology and develop patented products, to fill gaps in the domestic dairy market.

Promote Standardisation of Ranches for Advantages in Milk Sources with Attention to Natural and Pure Brand of Eco-friendly Pastures

With milk sources located at 40 degree north latitude and a naturally endowed environment, the Group will continuously promote the standardisation of ranches and increase the proportion of milk sources from ranches. Meanwhile, the quality control of raw milk will be further improved. The Group will vigorously carry out pre-emptive control measures for raw milk whereby the scope of quality control of raw milk will go upstream. Through monitoring the safety of fodder and drugs, the Group will further improve the quality of raw milk thus calling attention to the natural and pure from eco-friendly pastures.

Continuously Enrich the Product Matrix and Strive for Excellence in Flavour, Nutrition and Packaging of Products

Rising consumer incomes and expenditures and the subsequent upgraded consumption structure in China will further drive the consumption of high-end dairy products. The Group will continue to upgrade the flavour, nutrition and packaging of dairy products, to steadfastly grasp the evolving trend of high-end and niche markets for dairy products and consolidate its market share. Meanwhile, the Group will proactively enhance the communication with customers, to increase its brand affinity and gain preference among customers.

Promote the “Green Strategy” and Create a “Green Gold” Industry Chain for the Chinese Dairy Product Industry

The Group will play an important role in vigorously promoting the production and consumption of dairy products and related activities in an environmental-friendly and low-carbon emitting way, giving special preference to methane power generation, sewage treatment and recycling of packaging. It will also proactively advocate the suppliers and partners upstream and downstream within the dairy industry to cooperate with dairy product enterprises, with an aim to create a green industry. Additionally, the Group will launch a series of ecological public activities to guide the consumers and to turn the goal of green consumption into reality.

Looking forward, Mengniu envisages becoming one of the “World’s Top Ten Dairy Enterprises” and will persistently strive to be an elite international enterprise in terms of facilities design and layout, production, operations, sales and R&D by strengthening the cooperation and setting up joint ventures with international and domestic peers and associates. Meanwhile, the Group will continuously pursue excellence in providing its customers with products of high grade, high quality and high nutrition, and is dedicated to create “Good Quality” and “Green Living” for its customers.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

The Group had approximately 21,100 employees in Mainland China and Hong Kong as at 30 June 2010. Total staff costs during the period, excluding directors’ fees, were approximately RMB767.4 million (2009: RMB625.2 million). The Group has stepped up its efforts to provide intensive training programmes to staff members. Managers and technicians were offered opportunities to study abroad, attend training programmes and make professional visits, while timely taking note of information about the latest policies for the dairy industry promulgated by the government, with the goal of improving professional expertise and overall competency. Meanwhile, the Group’s staff were offered competitive remuneration with the aim that they would dedicate themselves wholeheartedly to their work and provide services to customers.

CODE ON CORPORATE GOVERNANCE PRACTICE

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

The Board has reviewed the Company’s corporate governance practices and is satisfied that the Company has been in compliance with all applicable code provisions set out in the CG Code during the six months ended 30 June 2010.

SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) set out in Appendix 10 to the Listing Rules as the Company’s code of conduct and rules governing dealings by all Directors in the securities of the Company. The Directors have confirmed, following the specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2010.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities shares during the six months ended 30 June 2010.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

AUDIT COMMITTEE

The Audit Committee currently comprises five Non-executive Directors, three of whom are independent. The current committee members are Mr. Zhang Julin (chairman), Mr. Jiao Shuge (alias Jiao Zhen), Mr. Ma Wangjun, Mr. Liu Fuchun and Mr. Zhang Xiaoya.

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 unaudited interim financial statements for the six months ended 30 June 2010.

BOARD OF DIRECTORS

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

SCOPE OF WORK OF ERNST & YOUNG

The financial figures in respect of the preliminary announcement of the Group's results for the six months ended 30 June 2010 have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft condensed consolidated financial statements for the period. 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.

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 of Directors
Yang Wenjun
Chief Executive Officer

Hong Kong, 31 August 2010

* *For identification only*