



# CHINA MENGNIU DAIRY COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

## ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

### FINANCIAL HIGHLIGHTS

	Unaudited	
	For the six months ended 30 June	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	<b>10,021,178</b>	7,546,355
<b>Profit attributable to equity holders of the Company</b>	<b>485,143</b>	343,425
<b>Net cash inflow from operating activities</b>	<b>1,412,391</b>	627,695
<b>Earnings per share (RMB)</b>		
— Basic	<b>0.35</b>	0.25
— Diluted	<b>0.35</b>	0.25

- Through development of high value-added products, further optimization of product mix and implementation of more precise marketing strategies, the Group's revenue increased by 32.8% to RMB10,021.2 million, while profit attributable to equity holders of the Company reached RMB485.1 million.
- According to the June 2007 ACNielsen survey, the Group had a 35.1% share of the liquid milk market (excluding milk beverages and yogurt) in China in terms of sales volume, against 33.3% in December 2006.
- In June 2007, the Group operated a total of 20 production bases with a combined annual production capacity of 4.71 million tons.

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 2007, 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

		<b>Unaudited</b>	
		<b>For the six months ended 30 Jun</b>	
		<b>2007</b>	<b>2006</b>
	<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Revenue</b>	3	<b>10,021,178</b>	7,546,355
Cost of sales		<b>(7,569,947)</b>	(5,788,670)
<b>Gross profit</b>		<b>2,451,231</b>	1,757,685
Other income and gains		<b>31,895</b>	10,731
Selling and distribution costs		<b>(1,658,650)</b>	(1,083,543)
Administrative expenses		<b>(213,776)</b>	(191,661)
Other operating expenses		<b>(15,428)</b>	(10,871)
<b>Profit from operating activities</b>		<b>595,272</b>	482,341
Interest income		<b>19,698</b>	8,075
Finance costs		<b>(29,532)</b>	(29,060)
Share of profits of associates		<b>3,543</b>	1,825
<b>Profit before tax</b>	4	<b>588,981</b>	463,181
Income tax expense	5	<b>(14,873)</b>	(48,439)
<b>Profit for the period</b>		<b>574,108</b>	414,742
Attributable to:			
Equity holders of the Company		<b>485,143</b>	343,425
Minority interests		<b>88,965</b>	71,317
		<b>574,108</b>	414,742
<b>Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)</b>	6		
— Basic		<b>0.35</b>	0.25
— Diluted		<b>0.35</b>	0.25

## CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>Unaudited 30 Jun 2007 RMB'000</b>	Audited 31 Dec 2006 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		4,552,843	4,160,283
Construction in progress		387,047	348,405
Other intangible assets		28,417	13,204
Land use rights		192,836	128,386
Interests in associates		40,338	40,371
Available-for-sale investments		16,817	15,316
Goodwill		199,143	115,549
		<u>5,417,441</u>	<u>4,821,514</u>
<b>CURRENT ASSETS</b>			
Inventories		855,477	1,071,460
Bills receivable	8	235,093	128,093
Trade receivables	9	291,475	186,976
Prepayments and deposits		207,531	162,120
Other receivables		27,894	18,386
Pledged deposits		37,233	45,071
Cash and bank balances		2,855,234	1,330,058
		<u>4,509,937</u>	<u>2,942,164</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	10	1,391,965	1,034,699
Bills payable	11	405,500	323,736
Deferred income		8,989	7,889
Accruals and customers' deposits		542,792	467,075
Other payables		977,038	972,728
Interest-bearing bank loans		232,885	234,022
Dividend payables		182,023	—
Other loans		63,900	31,000
Income tax payable		4,850	6,104
		<u>3,809,942</u>	<u>3,077,253</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>699,995</u>	<u>(135,089)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>6,117,436</u>	<u>4,686,425</u>

**CONDENSED CONSOLIDATED BALANCE SHEET** *(Continued)*

	<i>Notes</i>	<b>Unaudited</b> <b>30 Jun 2007</b> <b>RMB'000</b>	Audited 31 Dec 2006 RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans		<b>371,386</b>	641,136
Long term payables		<b>292,580</b>	292,110
Deferred income		<b>146,132</b>	120,499
		<u><b>810,098</b></u>	<u>1,053,745</u>
<b>NET ASSETS</b>		<u><b>5,307,338</b></u>	<u>3,632,680</u>
<b>EQUITY</b>			
Equity attributable to equity holders of the Company			
Issued capital		<b>151,255</b>	145,573
Retained earnings		<b>1,322,945</b>	993,822
Other reserves		<b>3,194,046</b>	1,859,469
		<u><b>4,668,246</b></u>	<u>2,998,864</u>
Minority interests		<b>639,092</b>	633,816
<b>TOTAL EQUITY</b>		<u><b>5,307,338</b></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 on 16 February 2004. 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 2007 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 2006.

#### Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those in Group's annual financial statements for the year ended 31 December 2006, except for the adoption of the following new and revised standards and interpretations as of 1 January 2007. The adoption of these standards and interpretations did not have any material effect on the financial position or operation results of the Group or the disclosures in the unaudited interim condensed consolidated financial statements for the current period.

- *IAS 1 Presentation of Financial Statements*

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.

- *IFRS 7 Financial Instruments: Disclosures*

IFRS7 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.

- *IFRIC 8 Scope of IFRS 2*

IFRIC Interpretation 8 requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than the fair value of the equity instruments granted or liability incurred.

- ***IFRIC 9 Reassessment of Embedded Derivatives***

IFRIC Interpretation 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

- ***IFRIC 10 Interim Financial Reporting and Impairment***

IFRIC Interpretation 10 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.

### **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 the PRC, no geographical segment analysis is presented.

The following tables present revenue, results and certain asset and liability information for the Group's business segments for the period ended 30 June 2007:

	<b>Unaudited</b>	
	<b>For the six months ended 30 Jun</b>	
	<b>2007</b>	<b>2006</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Segment revenue:		
Liquid milk	8,802,955	6,432,118
Ice cream	1,136,555	1,014,767
Other dairy products	81,668	99,470
	<u>10,021,178</u>	<u>7,546,355</u>
Segment results:		
Liquid milk	628,298	426,583
Ice cream	60,630	79,055
Other dairy products	(10,403)	3,629
	<u>678,525</u>	<u>509,267</u>
Unallocated corporate expenses	(83,253)	(26,926)
Profit from operating activities	595,272	482,341
Interest income	19,698	8,075
Finance costs	(29,532)	(29,060)
Share of profits of associates	3,543	1,825
Profit before tax	588,981	463,181
Income tax expense	(14,873)	(48,439)
Profit for the period	<u>574,108</u>	<u>414,742</u>
	<b>Unaudited</b>	<b>Audited</b>
	<b>30 Jun 2007</b>	<b>31 Dec 2006</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Segment assets:		
Liquid milk	6,589,173	6,049,910
Ice cream	1,256,201	1,029,309
Other dairy products	188,627	118,804
Unallocated corporate assets	2,613,772	1,668,720
Eliminations	(720,395)	(1,103,065)
Total assets	<u>9,927,378</u>	<u>7,763,678</u>
Segment liabilities:		
Liquid milk	3,484,187	3,809,625
Ice cream	688,300	471,854
Other dairy products	78,704	33,655
Unallocated corporate liabilities	1,089,244	918,929
Eliminations	(720,395)	(1,103,065)
Total liabilities	<u>4,620,040</u>	<u>4,130,998</u>

#### 4. Profit before tax

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

	Unaudited	
	For the six months ended 30 Jun	
	2007	2006
	RMB'000	RMB'000
Employee benefits expense (excluding directors' fees)	413,873	328,796
Depreciation of property, plant and equipment	237,325	187,661
Amortisation of other intangible assets	1,296	—
Amortisation of land use rights	2,159	888
Cost of inventories sold	<u>7,569,947</u>	<u>5,788,670</u>

#### 5. Income tax expense

- (a) Hong Kong profits tax has not been provided as the Group has 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 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, followed by a 50% reduction for the next three profitable years, or "The Notice of Income Tax Exemption for the Country's Key Enterprises in Agricultural Industries".

#### 6. Earnings per share

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

The diluted earnings per share amounts for the period is calculated by dividing the profit for the period attributable to ordinary equity holders 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.



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

	<b>Unaudited</b>	
	<b>For the six months ended 30 Jun</b>	
	<b>2007</b>	2006
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
Profit attributable to ordinary equity holders of the Company	<u><b>485,143</b></u>	<u>343,425</u>
	<b>Number of shares (in thousand)</b>	Number of shares (in thousand)
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	<b>1,391,591</b>	1,368,416
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the period	<u><b>386</b></u>	<u>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	<u><b>1,391,977</b></u>	<u>1,368,416</u>

## 7. Dividend

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: nil).

## 8. Bills receivable

An ageing analysis of the bills receivable of the Group as at 30 June 2007 is as follows:

	<b>Unaudited</b>	Audited
	<b>30 Jun 2007</b>	31 Dec 2006
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
Within 3 months	<b>227,643</b>	125,140
4 — 6 months	<u><b>7,450</b></u>	<u>2,953</u>
	<u><b>235,093</b></u>	<u>128,093</u>

## 9. 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 aforementioned and that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables of the Group, net of provision for impairment of trade receivables, is as follows:

	<b>Unaudited</b> <b>30 Jun 2007</b> <i>RMB'000</i>	Audited 31 Dec 2006 <i>RMB'000</i>
Within 3 months	270,350	163,944
4 — 6 months	17,576	20,453
7 — 12 months	2,958	2,104
Over 1 year	591	475
	<u>291,475</u>	<u>186,976</u>

## 10. Trade payables

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

	<b>Unaudited</b> <b>30 Jun 2007</b> <i>RMB'000</i>	Audited 31 Dec 2006 <i>RMB'000</i>
Within 3 months	1,325,568	971,494
4 — 6 months	54,257	51,696
7 — 12 months	7,650	5,623
Over 1 year	4,490	5,886
	<u>1,391,965</u>	<u>1,034,699</u>

## 11. Bills payable

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

	<b>Unaudited</b> <b>30 Jun 2007</b> <i>RMB'000</i>	Audited 31 Dec 2006 <i>RMB'000</i>
Within 3 months	274,280	221,527
4 — 6 months	131,220	102,209
	<u>405,500</u>	<u>323,736</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

For the six months ended 30 June 2007, the Group's revenue increased by 32.8% to RMB10,021.2 million. Profit attributable to equity holders of the Company reached RMB485.1 million (2006: RMB343.4 million). Basic and diluted earnings per share were both RMB0.35, representing an increase of 40.0% from that in the first half of 2006.

#### Operating Expenses

In the first half of 2007, the Group's selling and distribution costs amounted to RMB1,658.7 million (2006: RMB1,083.5 million), representing an increase from 14.4% of the Group's revenue in the last corresponding period to 16.5% of that of the current period. In order to strengthen the *MENGNU* brand, the Group launched a wide variety of promotion and marketing campaigns for its products which led to an increase in expenses on advertising and promotion, rising from 7.0% to 8.9% of the Group's revenue.

Administrative and other operating expenses amounted to RMB229.2 million (2006: RMB202.5 million) for the first half of 2007, representing a decrease from 2.7% of the Group's revenue in the same period last year to 2.3% for the current period. The percentage decrease was mainly benefited from the implementation of a comprehensive operation management system and stringent control on administrative expenses during the period.

#### Profit from Operating Activities

EBITDA increased by 24.6% to RMB836.1 million (2006: RMB670.9 million) for the period. During the period under review, the ratio of the advertising and marketing expenses to turnover increased when compared with the same period last year. However, at the implementation of a more precise operation management system, which enabled more efficient resource allocation and utilisation, the EBITDA margin dropped slightly to 8.3% (2006: 8.9%).

#### Capital Structure, Liquidity and Financial Resources

For the six months ended 30 June 2007, the Group's net cash inflow from operating activities amounted to RMB1,412.4 million (2006: RMB627.7 million). The net cash balances (cash and bank balances net of total bank loans) amounted to RMB2,251.0 million (31 December 2006: RMB454.9 million) as at 30 June 2007, indicating that the Group was in a strong financial position and had a healthy cash flow.

As at 30 June 2007, outstanding bank loans of the Group totaled RMB604.3 million (31 December 2006: RMB875.2 million), of which RMB232.9 million (31 December 2006: RMB234.0 million) was repayable within one year and RMB371.4 million (31 December 2006: RMB641.1 million) was repayable beyond one year. The debt-to-equity ratio (total bank loans to total equity) of the Group was 11.4% (31 December 2006: 24.1%).

For the six months ended 30 June 2007, the Group's finance costs were RMB29.53 million (2006: RMB29.06 million), or 0.3% of the Group's revenue (2006: 0.4%).

## MARKET REVIEW

The robust Chinese economy in the past few years has improved the living standards in major cities and enhanced the consumption power of the Chinese people. At the same time, at the effort of the Chinese government in promoting healthy living, milk drinking has become a habit of the Chinese people as reflected in the continuous rise in dairy product sales.

Along with the improving living standards, Chinese consumers have become more demanding on tastes, nutritional contents and wider range of added functions in dairy products and hence tend to go for premium brands that they can trust.

With the well-known quality brand, *MENGNIU*, and its relentless pursuit of high quality and innovative marketing strategy, the Group continued to grow and to sustain leadership in the China's dairy market during the period under review.

## BUSINESS REVIEW

Building on the result of its effort to improve over the years, the Group's market share continued to enhance. According to a survey conducted by ACNielsen in June 2007, the Group had a 35.1% share of the liquid milk market (excluding milk beverages and yogurt) in China in terms of sales volume, against 33.3% in December 2006. The top three liquid milk manufacturers accounted for 65.3% share of the market, evidencing further consolidation in the dairy market in China.

### Branding and Marketing

In branding and marketing, the Group continued to put in efforts in marketing and promoting the *MENGNIU* brand. The major promotional campaigns are as follows:

- An original spokesperson “Milk Man More More” (奶人多多) was created by the Group last year, building a more distinguished image on quality and energy for *MENGNIU* and thus enhanced customer loyalty.
- An outdoor activity “Mengniu Pure and Nature” (蒙牛親近自然快樂隨行) was organized in Hong Kong, Macau and the Philippines during the period, allowing customers to not only have a taste of fresh and pure Mongolian milk, but also get a personal feel of the nature in Inner Mongolia. The Group also actively expanded its business overseas by introducing products to countries such as Singapore, the Philippines and Malaysia.
- During the period under review, the Group and the National Basketball Association (“NBA”), an internationally renowned basketball association in the United States, jointly organized a series of events themed “care, health and nutrition”. The events included “Milk Loving Care” (中國牛奶愛心行動), a large-scale milk sponsorship program, and the “NBA Jam Van for Basketball Fans” (NBA籃球大蓬車互動球迷活動) to tie in with the “Mengniu's Inter-city All People Body-building Campaign”(蒙牛城市之間全民健身運動), both aimed at promoting a healthy lifestyle of “Drink more milk and exercise more”(多喝牛奶多運動) among the public in the PRC.

In order to highlight the characteristics of each product line, the Group continued to work with national and regional television stations to launch various interactive and creative programs (including themed programs or segments) during prime time. These campaigns are believed to have effectively enhanced the brand image of *MENGNIU* and customer loyalty, and also promoted the unique characteristics of products to target clientele and assisted in building secondary brand products.

## Products

With the aim of optimizing existing products and developing new products with high added-value, the Group injected more resources into research and development (“R&D”) during the period. It is dedicated to providing products of yet higher quality and with unique benefits to suit diverse customer tastes.

### Liquid milk

Liquid milk continued to be the Group’s main source of revenue. During the period, liquid milk brought in RMB8.8030 billion in revenue, accounting for 87.8% of the Group’s revenue. The revenue represented a growth of 36.9% as compared to RMB6.4321 billion attained in the same period of 2006.

#### *UHT milk*

The revenue from UHT milk products grew by 34.6% to RMB5.7978 billion when compared with RMB4.3078 billion in the same period last year, accounting for 65.9% of revenue of the liquid milk segment. At the Group’s persistent R&D efforts, its high-end milk product *Milk Deluxe* (特侖蘇) and *Milk Deluxe OMP* (特侖蘇OMP) both enjoyed strong customer support and satisfactory sales level. *Milk Deluxe* won the “IDF Marketing Awards — New Product Development” last year and *Milk Deluxe OMP* has been certified by the Center for Public Nutrition and Development of China as capable of facilitating the retention and absorption of calcium by the body. The functional milk product segment, including the *Hi-calcium, Low Fat Milk* (高鈣低脂奶), *Breakfast Milk* (早餐奶) and *Good Night Milk* (晚上好奶) was enriched with a new functional milk product series that provide Iron and Zinc to the body. By offering more choices to customers with different nutritional needs, the Group’s product portfolio has also been expanded.

#### *Milk beverages*

Revenue from the milk beverages segment increased by 43.6% to RMB2.3970 billion, accounting for 27.2% of the liquid milk revenue. Milk beverages segment continued to grow; a new generation of probiotic drink, *Suan Suan Ru* (酸酸乳), was launched during the period, which has helped to fortify a solid customer base for the segment. Apart from active marketing strategies, the Group continued to enhance the technological content of its products. During the period, new flavors on the *Future Star* (未來星) children milk series including *Xi Xi Shuang Jelly Drink* (吸吸爽奶凍) and *Xi Xi Shuang Milk Drink* (吸吸爽牛奶) were launched. With the featured formula conducive to children’s growth, coupled with the Disney cartoon characters packaging and a series of innovative marketing strategies, the *Future Star* children milk series has gradually become a favorite choice of parents and children. It represents an important step forward for the Group in entering the tremendous children milk market. The *Fruit Milk Drink* (真果粒) series, which is produced using high technology and enriched with real fruit pulps, was another attempt for the Group to tap this market segment.

## *Yogurt*

Revenue from the yogurt segment increased by 33.6% to RMB608.2 million and accounted for 6.9% of the liquid milk revenue. With probiotics specially suited for absorption by Chinese, the Group's *Champion* (冠益乳) series has been well received by consumers since its introduction. As the yogurt segment is considered as an important growth area for the Group in the future, the Group will put forth more resources in the technological advancement and R&D of this segment, so as to produce products with higher technological content and nutritional value and in turn to swiftly enhance the competitiveness and market share of the products.

## Ice cream

The ice cream segment brought in revenue of RMB1.1366 billion, 12.0% higher than that in the same period last year and accounting for 11.4% of the Group's revenue. The Group continued to improve the flavors, mouthfeel and packaging of its products during the period under review. New products will continually be introduced to the series, such as *Deluxe* (蒂蘭聖雪) and *Cheerful Ranch* (心情牧場), with the goals of increasing customer loyalty and building a solid foundation for the growth of its products in the high-end ice cream market. The segment's product sales growth was lower than the overall average growth of the Group during the period which was mainly due to the cooler weather as a result of heavy rain in Southern China in the first half of the year. The Group will continue to leverage its accumulated experience in the market and in the meantime, accelerate the development of new ice cream products, so as to further increase the market share of its products.

## Other dairy products

Revenue from other dairy products amounted to RMB81.7 million, accounting for 0.8% of the Group's revenue. The Group currently offers milk powder products under the **MENGNIU** brand, as well as *Mengniu Arla* (蒙牛阿拉) and *Milex* (美蕾茲), which were jointly launched with Arla Foods amba. The wide variety of milk powder products offered by the Group are designed with specific formulae targeting the needs of consumers at different ages, including infants, young children, the middle-aged and elderly. During the period under review, the Group formed a membership club, which organized various activities such as mothering skills seminars for pregnant mothers. It is a means for the Group to build a strong platform for expanding the infants formula milk powder market.

## **Raw Milk Supply**

To enhance the effectiveness of breeding and rearing of milk cattle, the Group had provided various efficient technological system services to raw milk suppliers. Through experience sharing and experts visiting, the Group provides the raw milk suppliers with trainings on up-to-date technologies on cow breeding and nurturing, disease prevention and cure, as well as breeds improvement. Furthermore, the Group also provides technical support services to raw milk suppliers so as to enhance raw milk quality as well as reduce their operational costs.

## **Production and Operation**

In June 2007, the Group operated a total of 20 production bases with a combined annual production capacity of 4.71 million tons (31 December 2006: 3.93 million tons).

Since last year, the Group has been striving to standardize quality management and optimize its operation management system to ensure all of its production facilities maintain the same high standard in technology, examination, production formulae and quality control. The Group also assesses and controls the input and output value of each product at development, marketing and massive sale stages from time to time. Timely adjustment to product mix will be made to ensure the high quality and effectiveness of all production processes.

Furthermore, to enhance the Group's technological capability for developing products for high-end markets, the Group's first Hi-tech Dairy Product Research Institute ("Research Institute") was opened in July this year. The Research Institute is equipped with research labs, test and examination labs and breeding labs. Applying advanced domestic and overseas technologies developed by R&D institutes such as the University of Cambridge of the UK and the Chinese Academy of Sciences, the Research Institute is currently the largest one with the most technologically advanced facility for dairy products in China. Apart from conducting technological research, analysis, training, exchange and cooperation, the Research Institute can also serve educational purposes and as an industry showcase. The Research Institute is expected to enable the Group to introduce new dairy products with new functions and higher technology content in the future.

### **Ventures and Alliances**

Along with the goal of building strong alliances with international enterprises, the Group has successfully allied with NBA, a world-renowned association with the same ambitions as Mengniu. In January 2007, the Group had become the official partner of NBA in China and also the exclusive supplier of dairy products such as liquid milk and yogurt for all NBA games in the country. The Group believes NBA's energetic image and Mengniu's healthy image can work well together in promoting a healthy lifestyle of "Drink more milk and exercise more". The strategic alliance does not only give recognition to the Group's products, but also act as a proof of advancing China's dairy industry onto the global stage.

### **Social Responsibilities**

To support the government public health goal encapsulated in the slogan "A catty of milk a day keeps the Chinese people invigorated always", the Group commenced a one-year milk sponsorship program for 500 primary schools in June last year starting with schools in Jing Gang Mountain. The sponsorship program was extended this year to another 500 primary schools, bringing the total number of beneficiaries to 1,000 schools.

The Group's efforts gained recognitions from all sectors. In June this year, the Training Division under the General Administration of Sports and eight other caring partners joined Mengniu's "Milk Loving Care" campaign. Through the allocation of their own resources, more children were provided with nutritious milk. In the future, the Group will continue to reciprocate to the community so that more people, especially children, can have good health and better quality lives.

### **PROSPECTS**

To foster China to be the world's largest dairy product supplier, enhancing its products' core technological capability is particularly important. In the future, the Group will commit more resources in technological advancement to develop core proprietary technologies that can enable the Group to introduce more nutritious high-end products to satisfy customer's demands on nutrition, great taste and fun.

### Collaborate with raw milk ranches for enhancing dairy product quality

The Group will strengthen the collaboration and communication with raw milk suppliers. The Group will utilize the advanced equipments as well as technologies and training facilities of the new Research Institute to provide the latest know-how on cow breeding and nurturing from time to time, so as to enhance the knowledge of the raw milk suppliers and improve the quality and scale in the long run. Riding on its long-standing and mutually beneficial relationship with raw milk ranches, the Group is guaranteed a stable supply of raw milk while raw milk suppliers can improve their operational efficiency.

### Implement new marketing strategy to appeal to target clientele

The Group will implement various marketing activities to appeal to target customer groups, continuing to build on the well-established *MENGNIU* corporate brand to project a more vivid image for its products in the minds of customers. Through forging closer ties with customers, the Group can help to enhance their understanding of the functions of its different products and gauge their opinions on products for prompt improvement. The Group will also work closely with its strategic partners in marketing to maximize publicity for its products.

### Strengthen collaboration with partners by developing multi-level alliances

Looking forward, the Group will continue to work towards the goals of building *MENGNIU* into a premium dairy product brand in China, aiding development of the country's dairy industry in technology, food hygiene and adding value to its output, and in turn take both Mengniu and the Chinese dairy industry into the international market. As a start, on 30 July 2007, the Group presented the first "International Dairy Festival" (國際乳業節) in the country, which was attended by representatives of the International Dairy Federation and other international dairy associations. During the festival, a summit titled "Pooling International Wisdom to Build the Dairy Capital of the World" (匯聚全球智慧、建設世界乳都) was held. Apart from having in-depth exchanges and discussions with all participants, the Group showed to the world the strengths and potential of Inner Mongolia and China in dairy production technological capability. In the future, the Group will continue to actively participate in various community activities and direct more efforts into on-going programs, and also rally as much involvement as possible from different parties in reciprocating the society and benefiting more people.

## **HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES**

As at 30 June 2007, the Group had approximately 26,000 employees in China and Hong Kong. Staff costs, excluding directors' fees, were approximately RMB413.9 million (2006: RMB328.8 million) for the period. To enhance the quality and competence of employees, the Group provided various pre-job and on-the-job trainings to newly joined and existing staff during the period on inter alia the latest industry knowledge and technical and management skills. In addition, the Group also organized various activities during the period under review, which allow the staff to have 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 plans 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 six months ended 30 June 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 of all Directors of the Company, the Company confirms that the Directors had strictly complied with the Model Code during the reporting period.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company’s listed securities during the six months ended 30 June 2007.

## **PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT**

This results announcement is published on the websites of the Company’s investor relations at [www.mengniu.com](http://www.mengniu.com) and Hong Kong Exchanges and Clearing Limited at [www.hkex.com.hk](http://www.hkex.com.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 comprises three Non-executive Directors, two of whom are independent. The current committee members are Mr. Zhang Julin (chairman), Mr. Li Jianxin and Mr. Jiao Shuge (alias Jiao Zhen). 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 2007.

## **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, Ms. Lu Jun 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, 12 September 2007