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 2011

HIGHLIGHTS

	Unaudited For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Revenue	**18,578,642**	14,434,223
Gross profit	**4,824,888**	3,787,172
Profit attributable to owners of the Company	**789,754**	618,820
Net cash inflow from operating activities	**1,381,454**	1,168,703
Earnings per share *(RMB)*		
– Basic	**0.454**	0.356
– Diluted	**0.453**	0.355

- The Group further optimized its product mix and employed a green and healthy brand image to consolidate its leading market position, revenue rose by 28.7% to RMB18,578.6 million while profit attributable to owners of the Company increased by 27.6% to RMB789.8 million during the period.
- The Group continued to expand its production capacity, and the aggregate annual production capacity reached 6.76 million tons as of June 2011.
- The Group continued to promote its "High Quality for a Green Life" brand proposition by launching a number of green activities. During the period, Mengniu was named "Social Responsible Enterprise" and "Most Influential Leader in a Low Carbon Economy", as well as presented with the "Eco-China Contribution Award" once again.
- After the acquisition of Junlebao, both parties have been actively engaged in collaborative efforts. Resources from both sides have been directed toward accelerating business development.
- The Group made further progress in reforming its organizational structure to strengthen coordination among various systems, and the overall synergy gradually revealed.

* *For identification purpose only*

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" or "Mengniu") for the six months ended 30 June 2011, together with the comparative amounts. The interim results and condensed interim financial statements have been reviewed by the audit committee (the "Audit Committee") and the auditors of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited For the six months ended 30 June	
		2011	2010
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**18,578,642**	14,434,223
Cost of sales		**(13,753,754)**	(10,647,051)
Gross profit		**4,824,888**	3,787,172
Other income and gains		**100,829**	57,242
Selling and distribution costs		**(3,311,344)**	(2,601,746)
Administrative expenses		**(522,284)**	(492,891)
Other operating expenses	*5*	**(96,928)**	(22,875)
Profit from operating activities		**995,161**	726,902
Interest income		**66,291**	39,270
Finance costs	*6*	**(29,052)**	(21,942)
Share of profits and losses of associates		**16,086**	5,226
Profit before tax	*4*	**1,048,486**	749,456
Income tax expense	*7*	**(156,338)**	(72,584)
Profit for the period		**892,148**	676,872
Attributable to:			
Owners of the Company		**789,754**	618,820
Non-controlling interests		**102,394**	58,052
		892,148	676,872
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)	*8*		
– Basic		**0.454**	0.356
– Diluted		**0.453**	0.355

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**Unaudited 30 June 2011** *RMB'000*	Audited 31 December 2010 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**5,738,770**	5,380,385
Construction in progress		**822,150**	535,104
Land use rights		**571,282**	484,572
Long term prepayments		**115,000**	–
Goodwill		**482,436**	451,613
Other intangible assets		**217,069**	221,508
Investments in associates		**105,450**	113,857
Available-for-sale investments		**377,002**	301,681
Deferred tax assets		**55,247**	81,060
Other financial assets		**49,339**	71,754
		8,533,745	7,641,534
CURRENT ASSETS			
Inventories		**1,670,895**	1,176,423
Bills receivable	*10*	**89,962**	20,539
Trade receivables	*11*	**736,761**	554,933
Prepayments and deposits		**864,263**	942,303
Other receivables		**187,147**	169,897
Investment deposits		**75,000**	–
Pledged deposits		**68,572**	102,399
Cash and bank balances		**6,570,248**	6,697,813
		10,262,848	9,664,307
CURRENT LIABILITIES			
Trade payables	*12*	**2,962,695**	2,061,193
Bills payable	*13*	**1,144,118**	1,487,302
Deferred income		**15,198**	15,082
Accruals and customers' deposits		**692,936**	880,142
Other payables		**1,630,270**	1,061,253
Interest-bearing bank loans		**410,151**	550,786
Other loans		**121,017**	140,018
Income tax payable		**69,097**	42,513
		7,045,482	6,238,289
NET CURRENT ASSETS		**3,217,366**	3,426,018
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,751,111**	11,067,552

	Unaudited 30 June 2011 *RMB'000*	Audited 31 December 2010 *RMB'000*
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	**50,000**	150,000
Long term payables	**92,892**	14,102
Deferred income	**220,620**	226,049
Deferred tax liabilities	**34,700**	39,865
Other financial liabilities	**453,952**	420,027
	852,164	850,043
NET ASSETS	**10,898,947**	10,217,509
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**179,452**	178,679
Retained earnings	**2,560,737**	2,050,216
Other reserves	**7,650,024**	7,529,169
	10,390,213	9,758,064
Non-controlling interests	**508,734**	459,445
TOTAL EQUITY	**10,898,947**	10,217,509

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 2011 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 2010.

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 2010, except for the adoption of the following new or revised standards and interpretations as of 1 January 2011. 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.

- IAS 24 *Related Party Transactions (Amendment)*

  The IASB has issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasis a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

- IAS 32 *Financial Instruments: Presentation (Amendment)*

  The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group.

- IFRIC 14 *Prepayments of a Minimum Funding Requirement (Amendment)*

  The amendment removes an unintended consequence when an entity is subject to minimum funding requirements ("MFR") and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as pension asset. The amendment to the interpretation had no effect on the financial position or performance of the Group.

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

  The interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are a consideration paid in accordance with IAS 39 *Financial Instrument: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognized in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. The interpretation had no effect on the financial position or performance of the Group.

- IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from comparative IFRS 7 Disclosures for First-time Adopters (Amendment)*

  The amendment allows a first-time adopter to utilize the transitional provisions in paragraph 44G of IFRS 7 and not to provide comparative figures for certain disclosures in an entity's first IFRS financial statements. The transitional provisions in IFRS 7 have also been amended to clarify that the disclosures required by Amendments to IFRS 7 *Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments* issued in March 2009 need not be provided for (i) annual or interim periods, including any statement of financial position presented within an annual comparative period ended before 31 December 2009 and (ii) any statement of financial position as at the beginning of the earliest comparative period as at a date before 31 December 2009.

Improvements to IFRSs (issued in May 2010)

In May 2010, the IASB issued its third 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 3 *Business Combinations*: The measurement options available for non-controlling interest ("NCI") have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

- IFRS 7 *Financial Instruments: Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

- IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements.

- IAS 34 *Interim Financial Reporting*: The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements.

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 3 *Business Combinations — Clarification that contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008) are accounted for in accordance with IFRS 3 (2005).*

- IFRS 3 *Business Combinations* — Unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination.

- IAS 27 *Consolidated and Separate Financial Statements* — applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards.

- IFRIC 13 *Customer Loyalty Programmes* — in determining the fair value of award credits, an entity shall consider discounts and incentives that would otherwise be offered to customers not participating in the loyalty programme.

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

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

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

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

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 2011 (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	**16,294,922**	**2,083,044**	**200,676**	**–**	**18,578,642**
Intersegment sales	**96,989**	**7,357**	**81,971**	**(186,317)**	**–**
Total	**16,391,911**	**2,090,401**	**282,647**	**(186,317)**	**18,578,642**
Segment results	**1,095,479**	**25,895**	**(18,380)**	**–**	**1,102,994**
Interest income					**66,291**
Finance costs					**(29,052)**
Share of profits and losses of associates					**16,086**
Unallocated corporate expenses					**(107,833)**
Profit before tax					**1,048,486**
Income tax expense					**(156,338)**
Profit for the period					**892,148**
At 30 June 2011 (Unaudited)					
Assets and liabilities					
Segment assets	**13,008,490**	**2,022,870**	**339,102**	**–**	**15,370,462**
Unallocated corporate assets					**7,132,087**
Intragroup elimination					**(3,705,956)**
Total assets					**18,796,593**
Segment liabilities	**9,143,366**	**1,409,428**	**247,385**	**–**	**10,800,179**
Unallocated corporate liabilities					**803,423**
Intragroup elimination					**(3,705,956)**
Total liabilities					**7,897,646**

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	12,500,271	1,821,702	161,199	(48,949)	14,434,223
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					(207,726)
Profit before tax					749,456
Income tax expense					(72,584)
Profit for the period					676,872
At 31 December 2010 (Audited)					
Assets and liabilities					
Segment assets	11,499,448	1,387,524	372,228	–	13,259,200
Unallocated corporate assets					7,985,412
Intragroup elimination					(3,938,771)
Total assets					17,305,841
Segment liabilities	8,995,050	848,956	275,372	–	10,119,378
Unallocated corporate liabilities					907,725
Intragroup elimination					(3,938,771)
Total liabilities					7,088,332

4. PROFIT BEFORE TAX

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

	Unaudited For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Cost of inventories sold	**13,753,754**	10,647,051
Depreciation of property, plant and equipment	**396,254**	338,772
Amortisation of land use rights	**5,958**	4,438
Amortisation of other intangible assets	**8,229**	2,194
Employee benefit expense (excluding directors' emoluments)	**839,033**	767,409

5. OTHER OPERATING EXPENSES

	Unaudited For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Provision for trade receivables	**15,543**	174
Write back of provision for inventories	**(156)**	(50)
Donations	**3,077**	12,411
Loss on disposal of items of property, plant and equipment	**910**	3,120
Educational surcharges and city construction tax	**73,777**	–
Others	**3,777**	7,220
	96,928	22,875

6. FINANCE COSTS

	Unaudited For the six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**23,788**	18,854
Interest on long term payables	**1,814**	3,088
Interest on other financial liabilities	**3,450**	–
	29,052	21,942

7. 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	
	2011	2010
	RMB'000	*RMB'000*
Current income tax		
Current income tax charge	**130,525**	69,689
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences	**25,813**	2,895
	156,338	72,584

(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".

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

The basic earnings per share 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 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 that 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	
	2011	2010
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the Company	**789,754**	618,820
	Number of shares *(in thousand)*	Number of shares *(in thousand)*
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	**1,740,461**	1,737,198
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the period	**1,734**	3,560
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	**1,742,195**	1,740,758

9. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: nil). During the six months ended 30 June 2011, the Company declared and paid final dividends of RMB0.16 (six months ended 30 June 2010: RMB0.1413) per share as proposed for the year ended 31 December 2010 to the shareholders of the Company.

10. BILLS RECEIVABLE

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

	Unaudited 30 June 2011 *RMB'000*	Audited 31 December 2010 *RMB'000*
Within 3 months	**82,587**	19,439
4 to 6 months	**7,375**	1,100
	89,962	20,539

11. 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 the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The 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 2011 *RMB'000*	Audited 31 December 2010 *RMB'000*
Within 3 months	**654,511**	444,546
4 to 6 months	**41,807**	101,423
7 to 12 months	**32,315**	8,205
Over 1 year	**8,128**	759
	736,761	554,933

12. TRADE PAYABLES

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

	Unaudited 30 June 2011 *RMB'000*	Audited 31 December 2010 *RMB'000*
Within 3 months	**2,832,494**	1,994,978
4 to 6 months	**102,977**	51,315
7 to 12 months	**22,914**	13,909
Over 1 year	**4,310**	991
	2,962,695	2,061,193

13. **BILLS PAYABLE**

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

	Unaudited 30 June 2011 *RMB'000*	Audited 31 December 2010 *RMB'000*
Within 3 months	**743,708**	493,824
4 to 6 months	**400,410**	993,478
	1,144,118	1,487,302

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the period, by capitalising on the opportunities arising in the industry such as the ongoing expansion of the dairy market in China, and the rationalisation of the dairy industry in China including the reapplication for production permits by the enterprises, Mengniu further consolidated its share in the market with an optimised product portfolio and a good brand image. Hence, the Group recorded stable growth for the six months ended 30 June 2011 with revenue amounting to RMB18,578.6 million (2010: RMB14,434.2 million), an increase of 28.7% as compared with the first half of the previous year. Profit attributable to owners of the Company was RMB789.8 million (2010: RMB618.8 million), an increase of 27.6% as compared with the same period of the previous year. Basic earnings per share were RMB0.454 (2010: RMB0.356).

Gross Profit

During the period under review, the Group recorded a gross profit of RMB4,824.9 million (2010: RMB3,787.2 million), an increase of 27.4% as compared with the same period of the previous year. The increase in the average price of raw milk and other raw materials had an effect on the production costs for the period. However, by leveraging the ongoing optimisation of the product portfolio and being supported by stringent cost control measures, the Group maintained the overall gross profit margin at 26% (2010: 26.2%).

Operating Expenses

During the first half of 2011, as the scale of operation of the Group expanded, the selling and distribution costs of the Group amounted to RMB3,311.3 million (2010: RMB2,601.7 million) indicating enhanced operational efficiency with the expansion in the scale of the Group's operation. Their percentage to the Group's revenue declined to 17.8% (2010: 18%). Advertising and promotion expenses for the first half of the year accounted for 8.1% (2010: 8.1%) of the Group's revenue, which was comparable with the level of the first half of 2010.

Through internal structural reform and stringent control of related expenses, administrative and other operating expenses amounted to RMB619.2 million (2010: RMB515.8 million), reducing their proportion to 3.3% of the Group's revenue (2010: 3.6%).

Profit from Operating Activities

The Group's EBITDA for the period was RMB1,421.7 million (2010: RMB1,077.5 million). Following the effective cost control, the EBITDA margin was 7.7% (2010: 7.5%), slightly increased as compared with the same period last year.

Capital Structure, Liquidity and Financial Resources

For the six months ended 30 June 2011, the Group's net cash inflow from operating activities amounted to RMB1,381.5 million (2010: RMB1,168.7 million). Net cash balances (cash and bank balances net of total bank loans) reached RMB6,110 million as at 30 June 2011 (31 December 2010: RMB5,997 million), indicating the strong financial position and considerably healthy cash flow of the Group.

As at 30 June 2011, the outstanding bank loans of the Group amounted to RMB460.2 million (31 December 2010: RMB700.8 million), of which RMB410.2 million (31 December 2010: RMB550.8 million) was repayable within one year and RMB50 million (31 December 2010: RMB150 million) was repayable beyond one year. Furthermore, bank loans of RMB215.2 million (31 December 2010: RMB270.8 million) were fixed interest-bearing loans.

The total equity of the Group was RMB10,898.9 million as at 30 June 2011 (31 December 2010: RMB10,217.5 million), and the debt-to-equity ratio (total bank loans over total equity) of the Group was 4.2% (31 December 2010: 6.9%).

For the period under review, the Group's finance costs amounted to RMB29.05 million (2010: RMB21.94 million), equivalent to approximately 0.2% of the Group's revenue (2010: 0.2%).

MARKET REVIEW

During the first half of 2011, the dairy industry in China sustained healthy development as a result of the further enhancement in safety control measures. Consumption in dairy products continued to increase. At the same time, the re-examination for production permits of the dairy enterprises eliminated a number of those that could not fulfill the requirements. This created a safer and more positive environment in the industry, which would facilitate the imposition of stricter regulation on the dairy enterprises in China in the future for the orderly and sustainable development of the dairy industry in China.

By capitalising on the favourable factors prevailing in the industry, Mengniu consolidated its share in the market taking advantage of the market development. In the meantime, the Group also strengthened its competitive edge and further consolidated its leading position in the dairy products industry in China. According to the statistics of China Industrial Information Issuing Centre under China's National Bureau of Statistics, Mengniu's dairy products ranked the first, in terms of both sales volume and sales value, among similar products in China for five consecutive years from 2006 to 2010.

BUSINESS REVIEW

The year of 2011 is the first year in Mengniu's second five-year development plan (the "Five-Year Development Plan"). The Group has formulated development targets for the long term and in different phases, and has been implementing flexible and effective measures to revamp various aspects of its operations. The functions of different departments under the Group have been engaged in a coordinated manner, which led to the satisfactory result of the Group for the first half of the year.

During the period, the Group continued to optimise its product portfolio. With the innovative products being continually launched, the proportion attributable to high value-added products continued to increase gradually, and laid a solid foundation for the improved results. The distinguished performance of the Group demonstrated that it has established a correct product strategy. Mengniu has exerted its best efforts in enhancement of milk sources and quality control, which has provided adequate assurance of product safety and improvement in quality. The Group made further progress in the reform of its organisational structure and employment qualification system, which also effectively enhanced the competency of management and became a new driving force for the long term development of the Group. As to branding, "High Quality for a Green Life" (好品質，綠生活) remains the long-term vision adopted by Mengniu. A series of ecological activities were kicked off under the themes of a green life, which were aimed at arousing the participation of different sectors in the society for the pursuit of a green life and expanding Mengniu's influence as a leading enterprise within the public perception of a green life, quality and health. The Group has thus further reinforced its well-respected reputation on sustainable development.

Since the acquisition of Shijiazhuang Junlebao Dairy Co., Ltd. (石家莊君樂寶乳業有限公司) by the Group ("Junlebao") in 2010, both parties have been engaged in full collaboration related to milk sources, marketing, sales channels and production facilities. Resources from both sides have been maximised and generated sound synergies to the mutual benefit of both parties.

Branding and Marketing

During the period under review, the Group initiated the yearly theme of "One Step Closer to Green Life" (走近綠生活) and continued to advocate the vision of green ecology. Mengniu proactively organised and participated in branding and marketing events adhering to this theme of a green and healthy life. The theme of "High Quality for a Green Life" (好品質，綠生活) as a component of the brand of Mengniu was promoted in depth and efforts were devoted to promote the public awarenesses about sustainable development in the society.

The International Horticultural Exposition (the "Expo") is to be held in Xi'an, China in 2011. Mengniu was selected as one of the global partners for the event due to its pioneering awareness and actions in corporate development, enhancement of production and ecology practices. The Expo is one of the most influential green events in the world, and is an important platform for the demonstration of green and low carbon technology development on a worldwide basis. The Group has participated in building its own ecology park in the Expo, and exhibiting the green ecology production chain of Mengniu through miniature landscaping. Interactive games for the visitors have also been planned, which displayed the green and low carbon vision of the Group and enhance its leading corporate image in the area of green life, quality and safety. During the "Earth Hour" activity initiated by the World Wide Fund ("WWF"), Mengniu, as one of the enterprises representing China, attended the lights off ceremony together with WWF leaders and many celebrities. As the sponsor for the "Earth Hour" and the leading enterprise of the dairy industry, Mengniu delivered its support to the event in substance through moving forward the milk product package recycling programme continually. Mengniu launched the "Package Recycling" (包裝回收) as a green community activity across many cities in China, which collected approximately 600,000 pieces of Tetra Pak packaging in total. There was also a large scale environmental protection event known as "Ecological Movement Support China" (生態行動，助力中國), which invited a number of celebrities to lead consumers in practicing a low carbon life generating a wave of green living practices for the environment. Mengniu deployed highly interactive new Internet-based media to promote its vision of green life, and created a green interactive platform. The activities, "Group Purchasing for a Green Life Camp at NIL" (全民報團綠生活0元團購活動), as well as "My Vows for a Lovely Green Life" (綠愛有我宣言) and "Plant Your Green Caring Seeds" (種下綠愛心願) launched under the "Mengniu Green Life Arena" programme (蒙牛綠生活館), have drawn attention on the Internet and allowed more consumers to understand and follow a green life and green consumption pattern.

The efforts devoted by Mengniu to the promotion of a green and low carbon life as well as the fulfillment of its corporate social responsibility were also extensively recognised by the society at large. In the annual award activity "Leaders in China 2010" (先驅中國) jointly organised by Reference News and International Herald Leader under Xinhua Agency, Mengniu was awarded the "Social Responsible Enterprise" (社會責任企業) for the year. During the Second Ecological China Forum (第二屆生態中國論壇), Mengniu was awarded the "Eco-China Contribution Award" (生態中國貢獻獎) again, as one of the leading enterprises in the dairy industry contributing to environment protection in China. Mengniu was also awarded the "Most Influential Leader in a Low Carbon Economy" (最具影響力的低碳領袖) at the event named "Leader for Low Carbon Economy – Leading Brands in China for the Development of Low Carbon Economy" (低碳領袖－中國低碳發展型領先品牌) jointly organised by the China National Radio and Nanfang Media Group, for its maintenance of low carbon emissions throughout the production process.

As people become more aware of a healthy and safe life, more consumers will gradually recognise the quality of Mengniu's products as its green brand.

Products

By continually launching new products, the Group offered more specific and high end dairy products to satisfy the segmented market demand. Mengniu enriched its product portfolio by featuring healthy, innovative and diversified products to boost its competitive edge and consolidate its leading position in the market.

Liquid milk

Revenue from the liquid milk segment amounted to RMB16,294.9 million, an increase of 30.8% as compared with RMB12,462.2 million in the same period of 2010, accounting for 87.7% (2010: 86.4%) of the revenue of the Group as its major income source.

UHT milk

Revenue from UHT milk products grew by 28.8% to RMB9,795.3 million (2010: RMB7,604.6 million), accounting for 60.1% (2010: 61%) of liquid milk segment revenue.

The *Milk Deluxe* (*特侖蘇*) series continued to enhance its purity and high end quality by using special premium milk sources. The image was further reinforced by the sales and marketing activities that were closely aligned to music and culture, so as to enrich the substance of its branding culture. The market share of this series maintained its absolute advantage over its peers. The *XinYangDao (新養道)* series targeting middle to high end market segments achieved a breakthrough in the market through product differentiation. *XinYangDao Zhenyang Milk (新養道珍養牛奶)*, the main product of this year which creatively combined the essence of donkey-skin, red jujube and medlar, blended the rich flavoured oriental recipe perfectly into the products, whilst giving more care to consumers' health. *Future Star Milk (未來星兒童成長牛奶)* implemented a strategic adjustment to the taste, packaging and name according to market preference, which ensured that the products would better match the positioning as children's milk. Moreover, through the expansion and rationalisation of its sales channels, the penetration of this series in the market was improved. The Group recently launched *Double Cereals Purified Milk (「穀+倍」醇正牛奶)* that emphasized the nutritious value from cereal grains and offered another high end choice to health-conscious customers.

Milk beverages

Revenue from the milk beverages segment was RMB4,247.1 million (2010: RMB3,562.4 million), increasing by 19.2% from the same period of last year, accounting for 26.1% (2010: 28.6%) of the liquid milk segment revenue.

The *Suan Suan Ru (酸酸乳)* series, which was well received by the trendy young people, and gained greater customer acceptance through the introduction of more innovative tastes. The *Fruit and Vegetable Suan Suan Ru (果蔬酸酸乳)* under this series was upgraded by adding fruit and vegetables to improve its appeal. More new flavours such as purple yam, carrot, cucumber and tomato brought the consumers with additional fresh feeling. The advanced technologies adopted in the production process of *Fruit Milk Drink (真果粒)* received Outstanding Awards under the umbrella of Patent Awards of China. The perfect match of real fruit and pure milk allowed the product to gain a leading share in the market. *Youyi C (優益C)*, a probiotic lactobacillus casein yogurt beverage contains casein that aids digestion and prevents the aging of intestine, was well received in the market by those working class people who are energetic and health conscious. The *Yiyou Te (益優特)* series deploying plastic packaging was introduced into the market during the period. Adding galacto-oligosaccharide, whey protein powder and milk minerals, it not only advanced the health of consumers with plenty of nutrients but also led a new market trend towards high end milk beverages.

Yogurt

Revenue from the yogurt segment recorded significant growth, with an increase of 73.9% to RMB2,252.5 million (2010: RMB1,295.2 million), accounting for 13.8% (2010: 10.4%) of the liquid milk segment revenue.

The Group continued to reinforce its strong brands in the high end yogurt market. *Inner Mongolia Old Yogurt (內蒙古老酸奶)* is a product free from any additives, which is a kind of thick yogurt with a natural taste. Greater efforts were devoted to marketing this product nationwide, and the sales performance was better than expected. *Champion (冠益乳)*, the dual function yogurt, was the first yogurt brand of Mengniu to obtain the national certification as a health-care product. Made of quality pure fresh milk and rich in BB-12 Bifidobacterium, *Champion* offered extra care to the intestine and sold well. Its leading position in the high end yogurt market was consolidated. After the acquisition of Junlebao, the Group's yogurt product portfolio is enriched, thereby providing more comprehensive choices to the market.

Ice cream

Revenue of the ice cream segment amounted to RMB2,083 million (2010: RMB1,821.1 million), up 14.4% from the same period last year, accounting for 11.2% (2010: 12.6%) of the revenue of the Group.

A comprehensive upgrade was conducted for ice cream products during the period, which further enhanced its position to a higher tier. The product portfolio after the revamp brought sound contributions to the earnings and laid a good foundation for its long term development. The *Deluxe (蒂蘭聖雪)* series, a key product of the segment, applies premium milk sources and natural fragrance, making it a pure and delicious cooling choice for the consumers. The series became an emerging force in the middle to high-end ice cream market in China. On the basis of its excellent reputation accumulated over the years, the *Mood for Green (綠色心情)* series remained attractive in the market. By leveraging the tradition of its brand, *Sui Bian (隨變)* products launched new flavours for the *Wen Ding (問頂)* series. The sales of the products remained at a high level with the support from the brand concept of "Everything Changes with Me" (一切隨我而變). Ice cream products also explored the potential of the *Future Star* brand in the children market and launched *Future Star Mini Milk Ice Cream (未來星小牛奶口味雪糕)* that fully demonstrated the synergy brought about by the integration of brand resources.

Other dairy products

Revenue from other dairy products amounted to RMB200.7 million (2010: RMB150.9 million), accounting for 1.1% (2010: 1%) of the revenue of the Group.

During the period, the Group conducted a significant reform of its milk powder products, which were repackaged with a novel Chinese brand *MENGNIU ARLA (歐世蒙牛).* The products are positioned at the high end of the baby and infant milk powder market, which emphasize the premium milk sources of the products that are tailor-made for Chinese babies, with the concept of "Scandinavian Mind with a Chinese Heart" (北歐智慧中國心). As for sales and marketing, *MENGNIU ARLA (歐世蒙牛)* also changed from distribution nationwide to entering selected major cities with great potential. From the penetration of professional channels and professional training for sales staff, the healthy and nutritious image of the product was enhanced. Preliminary results from the product reform were positive with increased sales of milk powder products which laid solid foundation for the planning of effective branding in the future.

Quality Control

The Group continued to exercise strict control over different aspects of the production processes, thereby enhancing the standard of quality assurance. During the period, on the existing basis of quality control systems, Mengniu upgraded from the previous GMP system to the FSSC22000 that better adheres to international industry standards. The General Administration of Quality Supervision, Inspection and Quarantine stipulated that all dairy products enterprises were required to reapply for the production permits. The operations departments and branches or processing plant of Mengniu involved in such processes have successfully passed the re-examination and obtained the new production permit for dairy products.

Enhancement of Milk Sources

The Group has insisted on the enhancement of its milk sources as its focus of work, which included providing entrusted loans, prepaying for raw milk, investing in large scale ranches and constructing modernised ranches facilities. The proportion of milk sources provided by ranches and scaled farms was increased to nearly 80%, which was well above the industry level and became a significant basis for ongoing assurance of the quality and safety of the Group's products. In monitoring milk sources, Mengniu also introduced a somatic cell inspection project on a trial basis. More international standards were imposed to inspect the health index of the milk cows. By actively enhancing the safety of fodder and veterinary drugs, the quality of milk was better assured. Mengniu has continued establishing dairy farm technology service systems that are leading the industry. Through the employment of technical staff and the engagement of experts, specific technology services have been provided for the suppliers, which facilitated disease prevention and treatment of dairy cattle while advancing the quality of milk sources.

R&D Achievements

During the period, the Group has continued to devote its best endeavours to the R&D of relevant technologies. The post-doctoral scientific research centre, having approved by the Ministry of Human Resources and Social Security, has been put into operation and has been conducting in-depth R&D on certain aspects of dairy products in a well-planned manner. Benefited from the resource integration after the organisational structure reform, the Group has also stepped up the application of patents for its R&D achievements. During the first half of the year, 72 patents were applied for and 56 patents were obtained.

Production and Operations

During the period, the Group continued to strive to expand production capacity. The aggregate annual production capacity increased to 6.76 million tons in June 2011 (December 2010: 6.5 million tons).

Mengniu has put emphasis on technology upgrade and equipment introduction, as well as strengthening the application of auto-machinery. Through the application of automated machines, both the utilisation rate per capita was improved and production costs were saved. In order to enhance the capabilities in production technologies, the Group has also collaborated with the manufacturers on R&D equipment according to the production process. Production equipment customised for Mengniu was designed and manufactured, which supported a more efficient production operation.

The strategy of "selling to where it is produced and producing at where it is sold" (產地銷、銷地產) remained the guiding strategy for the deployment of production bases, for the purpose of matching production capabilities with sales volume and reducing transportation costs. At the same time, the Group also executed its supply chain optimisation project and operation cost reduction project in full force, so as to further optimise its costs.

Joint Ventures and Alliances

The collaboration between the Group and COFCO Corporation ("COFCO"), the leading cereals, oils and foodstuff enterprise in China, was further extended. COFCO has provided Mengniu with a solid platform in the sharing of resources for the development of Mengniu, thereby maintaining its competitive edge to continue without sacrificing its own unique identity. Mengniu has forged an alliance with China Modern Dairy Holdings Ltd. for priority supply, which also offered a safe and steady assurance of its milk sources.

Human Resources

As at 30 June 2011, the Group had approximately 25,000 employees in Mainland China and Hong Kong. Total staff costs for the period, excluding the directors' remuneration, were approximately RMB839 million (2010: RMB767.4 million).

The Group continued to proceed with employment qualification administration system in an orderly manner. The performance appraisal guidelines for different categories of staff within Mengniu were revised during the period. Specific guidance was provided to the staff for their better understanding about the standards of the operations and were related to their respective career development plans. These efforts resulted in enhancement of effective professional standard of the work of the staff. Training was also provided for the staff on certain aspects of work, so that the quality of the Group's staff was improved accordingly.

Prospects

With the ongoing expansion for the dairy products market in China and the stricter control exercised by the Government over the safety of the industry, these created a healthy environment to nurture the future development of the dairy industry in China and development opportunities for leaders in the industry such as Mengniu.

By capitalising on its prevailing competitive advantages, the Group proceeded with its Five-Year Development Plan in an orderly manner. Mengniu intends to devote efforts in launching new products and optimising its product portfolio for fuelling its corporate development. At the same time, Mengniu will continue to enhance the milk sources so as to ensure the product quality. The image of green and good health will thus be created and will pave the way for the sustainable development of the Group.

Enhancing and consolidating its edge in milk sources to securing good quality in upstream

Mengniu has always regarded its milk sources as part of its core competencies. Through the introduction of scientific technology and management methods, the Group is pursuing the strategy of standardising ranches. Through supporting rapid development of the ranching area as well as small to middle size modern ranches, Mengniu seeks to increase the proportion of milk from ranches in the raw milk. In the meantime, Mengniu will enhance the cooperation with dairy farmers, including the provision of technology services, to ensure the product quality continues to lead the industry. The Group will lead the dairy industry in China towards scientific development and take up the important responsibility of ensuring the safety of dairy products for the people in China.

Expanding coverage in segmented markets by increasing the proportion of high-end products and enriching the product lines

Mengniu will continue to devote efforts in the adjustment of the product portfolio through optimisation of its product mix. With a close monitoring of the demands of the segmented markets, Mengniu will continue to research and develop products with high added value. Through a better product range and an enhanced product image, Mengniu will bolster the attraction of its products in the market, and enhance overall profitability through high end products. In the future, in order to lead the dairy industry in China to be more diversified, the Group will emphasize the development of products with proprietary intellectual property rights and introduce products with greater differentiation into the market.

Foster internal reform and enhance professional standard of management

The preliminary stages of reform measures in the Group, such as the restructuring of the organisation and implementing the employment qualification administration system, have been completed. These measures will be reinforced gradually in the future, which will facilitate the better coordination among the departments. The career for the staff will evolve towards a higher degree of professionalism. Through a series of enhancement measures for internal administration, the Group continues to improve its standard of management. This ensures the operational efficiency of each production segment, and the consolidation of the brand of ***MENGNIU*** at a leading position in the market.

Establishing an image for sustainable development through advocating green initiatives

Mengniu will continue to rally strength on the theme of "High Quality for a Green Life" (好品質，綠生活) and persist in forging a green ecological industrial chain as its development strategy. It will comply with the low carbon rules in various production segments, and provide consumers with quality dairy products that are healthy and natural. Furthermore, it will proactively engage in branding activities for the promotion of the ecology protective concept. While creating the green image of the brand, Mengniu will also contribute to advance the green economy through the participation by the public.

Under the leadership of a young and energetic management team, the Group has prescribed a good start for the Five-Year Development Plan with satisfactory results for the first half of 2011, and has successfully built up confidence in accomplishing the development goals for the future. On this basis, the Group will continue to exert its best efforts for improving its products, administration and branding, and consolidate its leading position in the dairy market in China.

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 of Hong Kong Limited (the "Listing Rules") as its own code of corporate governance practices.

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with all applicable code provisions set out in the CG Code during the six months ended 30 June 2011.

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 2011.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2011.

AUDIT COMMITTEE

The Audit Committee currently comprises five Non-executive Directors, three of whom are independent. The current committee members are Mr. Xie Tao (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 Group's unaudited interim financial statements for the six months ended 30 June 2011.

SCOPE OF WORK OF ERNST & YOUNG

The financial information in respect of the preliminary announcement of the Group's results for the six months ended 30 June 2011 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.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the websites of the Company's investor relations at www.mengniuir.com and 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 aforesaid websites in due course.

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. Liu Fuchun, Mr. Zhang Xiaoya and Mr. Xie Tao.

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
Yang Wenjun
Chief Executive Officer

Hong Kong, 30 August 2011