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 2012

HIGHLIGHTS:

	Unaudited For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Revenue	**18,360,566**	18,578,642
Gross Profit	**4,710,542**	4,824,888
Profit attributable to owners of the Company	**644,690**	789,754
Net cash inflow from operating activities	**1,104,831**	1,381,454
Earnings per share *(RMB)*		
– Basic	**0.365**	0.454
– Diluted	**0.365**	0.453

- In the face of a slowdown in the growth of China's dairy industry, the Group maintained a stable sales amount by optimizing its product structure with high gross profit and implementing appropriate sales and marketing strategies. During the period, total revenue of the Group amounted to RMB18,360.6 million, and profit attributable to owners of the Company was RMB644.7 million.
- According to future potential market and deployment demand for product development, the Group has continuously expanded its scale of production, and the aggregate annual production capacity of the Group had reached 7.39 million tons as of June 2012.
- The Group has established long term strategic cooperation with European dairy enterprise Arla Foods Amba ("Arla Foods") with an aim to collaborate in the areas of technology, quality control, milk sources, management, branding and product innovation. The cooperation initiative will drive the Group's operations to meet the advanced management standards in line with the international dairy industry.
- The Group restructured its quality management system and set up the quality and safety administration center, operations and milk sources quality administration center, so as to strengthen over the quality process as well as control every detail of quality and safety.
- The Group continued its efforts in developing milk sources under standardisation of ranches and centralisation, raising the proportion of raw milk sourced from ranches and scaled farms by approximately 5% during the period.

* *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 2012, 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	
		2012	2011
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**18,360,566**	18,578,642
Cost of sales		**(13,650,024)**	(13,753,754)
Gross profit		**4,710,542**	4,824,888
Other income and gains		**108,784**	100,829
Selling and distribution costs		**(3,297,452)**	(3,311,344)
Administrative expenses		**(569,595)**	(522,284)
Other operating expenses	*5*	**(128,720)**	(96,928)
Profit from operating activities		**823,559**	995,161
Interest income		**101,847**	66,291
Finance costs	*6*	**(12,037)**	(29,052)
Share of profits and losses of associates		**(10,779)**	16,086
Profit before tax	*4*	**902,590**	1,048,486
Income tax expense	*7*	**(154,678)**	(156,338)
Profit for the period		**747,912**	892,148
Attributable to:			
Owners of the Company		**644,690**	789,754
Non-controlling interests		**103,222**	102,394
		747,912	892,148
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)	*8*		
– Basic		**0.365**	0.454
– Diluted		**0.365**	0.453

Details of the dividends payable and proposed for the period are disclosed in note 9 to the condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**7,124,759**	6,806,539
Construction in progress		**930,108**	887,103
Land use rights		**661,607**	585,007
Long term prepayments		**301,203**	243,942
Goodwill		**482,436**	482,436
Other intangible assets		**226,926**	224,887
Investments in associates		**142,709**	153,352
Available-for-sale investments		**321,600**	295,206
Deferred tax assets		**61,474**	66,749
Other financial assets		**57,246**	69,961
		10,310,068	9,815,182
CURRENT ASSETS			
Available-for-sale investments		**275,200**	–
Inventories		**1,647,581**	1,685,247
Bills receivable	*10*	**628,184**	261,024
Trade receivables	*11*	**845,218**	574,734
Prepayments and deposits		**607,866**	774,907
Other receivables		**246,090**	289,427
Investment deposits		**660,760**	102,800
Pledged deposits		**64,455**	175,289
Cash and bank balances		**5,884,790**	6,523,075
		10,860,144	10,386,503
CURRENT LIABILITIES			
Trade payables	*12*	**3,233,166**	2,543,405
Bills payable	*13*	**1,444,306**	1,141,141
Deferred income		**18,712**	18,912
Accruals and customers' deposits		**494,852**	1,180,720
Other payables		**1,678,230**	1,581,781
Interest-bearing bank loans		**732,095**	537,544
Other loans		**44,940**	119,094
Income tax payable		**103,923**	103,228
		7,750,224	7,225,825
NET CURRENT ASSETS		**3,109,920**	3,160,678
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,419,988**	12,975,860

	Unaudited 30 June 2012 *RMB'000*	Audited 31 December 2011 *RMB'000*
NON-CURRENT LIABILITIES		
Long term payables	**156,573**	188,739
Deferred income	**225,778**	234,940
Deferred tax liabilities	**27,634**	22,830
Other financial liabilities	**512,694**	480,531
	922,679	927,040
NET ASSETS	**12,497,309**	12,048,820
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**181,110**	181,087
Retained earnings	**3,369,018**	3,074,337
Other reserves	**8,369,333**	8,215,634
	11,919,461	11,471,058
Non-controlling interests	**577,848**	577,762
TOTAL EQUITY	**12,497,309**	12,048,820

NOTES:

1. CORPORATE INFORMATION

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with International Accounting Standard 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 2011.

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 2011, except for the adoption of the following new or revised standards and interpretations as of 1 January 2012. 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 12 – Deferred Tax: Recovery of Underlying Assets (Amendment)*

  This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date is for annual periods beginning on or after 1 January 2012.

- *IFRS 7 – Disclosures – Transfers of financial assets (Amendment)*

  The International Accounting Standards Board issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after 1 July 2011 with no comparative requirements.

- *IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)*

  When an entity's date of transition to IFRS is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. Effective implementation date is for annual periods beginning on or after 1 July 2011 with early adoption permitted.

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 2012 (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	**15,940,786**	**2,158,257**	**261,523**	**–**	**18,360,566**
Intersegment sales	**126,261**	**11,869**	**86,846**	**(224,976)**	**–**
Total	**16,067,047**	**2,170,126**	**348,369**	**(224,976)**	**18,360,566**
Segment results	**993,747**	**59,793**	**(54,241)**	**–**	**999,299**
Interest income					**101,847**
Finance costs					**(12,037)**
Share of profits and losses of associates					**(10,779)**
Unallocated corporate expenses					**(175,740)**
Profit before tax					**902,590**
Income tax expense					**(154,678)**
Profit for the period					**747,912**

At 30 June 2012 (Unaudited)

	Liquid milk products *RMB'000*	Ice cream products *RMB'000*	Other dairy products *RMB'000*	Intersegment eliminations *RMB'000*	Consolidated *RMB'000*
Assets and liabilities					
Segment assets	**16,211,838**	**2,014,949**	**749,072**	**–**	**18,975,859**
Intragroup elimination					**(5,952,676)**
Unallocated corporate assets					**8,147,029**
Total assets					**21,170,212**
Segment liabilities	**11,169,391**	**1,303,293**	**703,106**	**–**	**13,175,790**
Intragroup elimination					**(5,952,676)**
Unallocated corporate liabilities					**1,449,789**
Total liabilities					**8,672,903**

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 31 December 2011 (Audited)

	Liquid milk products *RMB'000*	Ice cream products *RMB'000*	Other dairy products *RMB'000*	Intersegment eliminations *RMB'000*	Consolidated *RMB'000*
Assets and liabilities					
Segment assets	14,940,212	1,613,604	343,248	–	16,897,064
Intragroup elimination					(4,756,443)
Unallocated corporate assets					8,061,064
Total assets					20,201,685
Segment liabilities	10,814,233	1,016,822	261,879	–	12,092,934
Intragroup elimination					(4,756,443)
Unallocated corporate liabilities					816,374
Total liabilities					8,152,865

4. PROFIT BEFORE TAX

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

	Unaudited For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Cost of inventories sold	**13,646,728**	13,753,754
Realised and unrealised fair value losses of derivative financial instruments, net	**3,296**	–
Cost of sales	**13,650,024**	13,753,754
Depreciation of property, plant and equipment	**475,713**	396,254
Amortisation of land use rights	**7,289**	5,958
Amortisation of other intangible assets	**3,991**	8,229
Employee benefit expense (excluding directors' emoluments)	**877,595**	839,033

5. OTHER OPERATING EXPENSES

	Unaudited For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Provision for trade receivables and other receivables	**15,962**	15,543
Provision/(write back of provision) for inventories	**6,427**	(156)
Loss on disposal of items of property, plant and equipment	**1,155**	910
Donations	**2,610**	3,077
Educational surcharges and city construction tax	**71,532**	73,777
Foreign exchange losses, net	**26,727**	–
Others	**4,307**	3,777
	128,720	96,928

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Unaudited For the six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Interest on long term payables	**9,167**	1,814
Interest on bank loans wholly repayable within five years	**457**	23,788
Increase in discounted amounts of contingent consideration arising from the passage of time	**2,413**	3,450
	12,037	29,052

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	
	2012	2011
	RMB'000	*RMB'000*
Current income tax		
Current income tax charge	**149,403**	130,525
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences	**5,275**	25,813
	154,678	156,338

(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 PRC CIT Law; (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	
	2012	2011
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the Company	**644,690**	789,754
	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	**1,767,571**	1,740,461
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the period	**58**	1,734
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	**1,767,629**	1,742,195

9. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil). During the six months ended 30 June 2012, the Company declared and paid final dividends of RMB0.198 (six months ended 30 June 2011: 0.16) per share as proposed for the year ended 31 December 2011 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	Audited
	30 June	31 December
	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**488,576**	224,987
4 to 6 months	**139,608**	36,037
	628,184	261,024

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 2012 *RMB'000*	Audited 31 December 2011 *RMB'000*
Within 3 months	**803,503**	465,053
4 to 6 months	**36,417**	86,195
7 to 12 months	**5,298**	15,347
Over 1 year	**–**	8,139
	845,218	574,734

12. TRADE PAYABLES

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

	Unaudited 30 June 2012 *RMB'000*	Audited 31 December 2011 *RMB'000*
Within 3 months	**3,134,950**	2,350,904
4 to 6 months	**73,191**	177,669
7 to 12 months	**23,114**	12,114
Over 1 year	**1,911**	2,718
	3,233,166	2,543,405

13. BILLS PAYABLE

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

	Unaudited 30 June 2012 *RMB'000*	Audited 31 December 2011 *RMB'000*
Within 3 months	**1,016,427**	617,363
4 to 6 months	**427,879**	523,778
	1,444,306	1,141,141

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

During the period, the economic growth in China slowed down, which led to a decline in the growth of the dairy industry. Industry regulation tightened and developed in a solid and stable manner. Affected by the flavacin M1 and other negative press reports at the end of 2011, the sales volume of the Group reduced nearly by 30% at certain time. Through the adoption of appropriate sales and marketing strategies, means to restore the brand as well as enhancing the proportion of revenue from high-end products to increase the brand reputation and consumer loyalty, the sales of *Milk Deluxe* and *Future Star Milk* increased approximately 14%, *Champion* increased approximately 21% and *Mood for Green* increased approximately 18%. Revenue of the Group for the six months ended 30 June 2012 reached RMB18,360.6 million (2011: RMB18,578.6 million).

Gross Profit

In order to maintain our leading position in the market, the Group devoted additional efforts in product promotion, which sought to actively recover sales and restore the confidence of consumers. The Group eliminated a large number of fragmented milk sources and increased the proportion of purchase from integrated milk sources so as to enhance the quality of its products. As such, there recorded surge in the cost of milk sources. In the meantime, costs also surged upon further efforts devoted by the Group in engaging more quality assurance staff to inspect each stage of production on a more regular basis. During the period under review, the Group recorded a gross profit of RMB4,710.5 million (2011: RMB4,824.9 million), a slight decrease of 2.37% as compared with the same period last year. The Group also used its endeavours to improve the product mix by enhancing the proportion of high-end products. Overall gross profit margin reached 25.7%, a decrease of 0.3 percentage points from the same period last year.

Operating Expenses

During the period under review, the Group modified its strategies for allocating expenses with regard to the actual situation in the market. Advertising and promotion expenses were reduced and reallocated to strengthen other targeted channels. In the first half of 2012, selling and distribution costs amounted to RMB3,297.5 million, with their percentage to the Group's revenue increased to 18% (2011: 17.8%). The percentage of advertising and promotion expenses to revenue was reduced to 7% (2011: 8.1%).

The administrative and other operating expenses amounted to RMB698.3 million (2011: RMB619.2 million), increased by 0.5 percentage points to 3.8% of the Group's revenue (2011: 3.3%), compared with the same period last year. The increase was mainly due to amortisation of fair value expenses arising from issued share options, an increase in depreciation charges and other operating expenses.

Profit from Operating Activities and Net Profit

Affected by the fall in revenue and gross profit as well as the increase in expenses, the Group's earnings before interest, taxes, depreciation and amortization (EBITDA) for the period was RMB1,299.8 million (2011: RMB1,421.7 million). EBITDA margin declined to 7.1% (2011: 7.7%).

Profit attributable to owners of the Company was RMB644.7 million (2011: RMB789.8 million). Basic earnings per share were RMB0.365 (2011: RMB0.454).

Working Capital, Financial Resources and Capital Structure

For the six months ended 30 June 2012, the Group's net cash inflow from operating activities amounted to RMB1,104.8 million, representing a decrease from RMB1,381.5 million in the corresponding period of 2011. The decrease was primarily attributable to the increase in trade receivables as at the end of the period from RMB574.7 million as at the end of last year to RMB845.2 million. The increase was primarily attributable to the extension of credit limits for the distributors, thereby allowing them to work closely with the Company to rapidly recover the market share.

Net cash balances (cash and bank balances net of total bank loans) reached RMB5,152.7 million as at 30 June 2012, representing a decrease of RMB832.8 million from RMB5,985.5 million as at 31 December 2011. The decrease was primarily attributable to the improvement of efficiency in the application of funding resulting from an increase in the amount of investment deposits.

As at 30 June 2012, the outstanding bank loans of the Group amounted to RMB732.1 million (31 December 2011: RMB537.5 million), of which all are repayable within one year. Furthermore, bank loans of RMB53 million (31 December 2011: RMB167.1 million) were fixed interest-bearing loans.

The total equity of the Group was RMB12,497.3 million as at 30 June 2012 (31 December 2011: RMB12,048.8 million), and the debt-to-equity ratio (total bank loans over total equity) was 5.9% (31 December 2011: 4.5%). During the period, the Group's finance costs amounted to RMB12.04 million (2011: RMB29.05 million), accounting for approximately 0.1% of the Group's revenue (2011: 0.2%).

BUSINESS REVIEW AND FUTURE STRATEGIES

Subsequent to rationalisation of the industry over recent years, the dairy industry in China became concentrated and developed in a more stable and orderly manner.

During the period, the Group austerely concluded from the inadequacies and experiences, and sought for quality development in a more proactive manner. The Group aimed to have full control over the entire dairy product industry chain, and improved the internal control system and reinforced operational capacities of various segments in a sustained manner.

Quality Assurance

To reinforce its quality assurance, the Group conducted risks evaluation across the entire business chain from sources to production and sales, and reorganised the quality and safety department. During the period, the Group had established a quality and safety administration center, which is independent from other quality control departments of the Group. It is responsible for formulating quality systems, assessing as well as inspecting the work of other quality control departments. The execution and supervisory of quality control work was separated whilst keeping a monitoring and reinforcement on one another.

The Group emphasized on the enhancement of overall quality assurance. At the beginning of the year, the Group engaged quality assurance experts from the international fast-moving consumer goods industry to operate its quality and safety administration system and enhanced a comprehensive quality management system. More staff and equipment were allocated to different operations segments for quality assurance purposes. Meanwhile, the Group strengthened the staff training and developed their expertise.

Currently, the Group has in place a well-developed and experienced quality assurance team with the portion of the staff engaged in the quality assurance function taking the lead in the food industry. The Group is exerting its best efforts to perfect its "end-to-end" quality management system across its dairy products chain, assessing its risks and improving the quality of each segment from sources to production management and sales.

With the aim to continuously improve the quality, Mengniu and Arla Foods Amba ("Arla Foods") of Denmark, the world's fifth largest dairy products enterprise, are to cooperate across a number of key areas, from the management of milk sources at the front end to quality control over the production process. This cooperation initiative will drive Mengniu to match the advanced standards of management in the international dairy industry.

During the period under review, the Group conducted a comprehensive review and analysis over the administration system and had not pursued for growth without quality support. We targeted to align our quality assurance system with those leading the international market and develop together with the dairy products industry in China.

Enhancement of Milk Sources

The source of milk is the first quality gateway for dairy enterprises, and is also an area that all dairy enterprises must enhance under severe food safety challenges quality. The Group has been devoting more resources to enhance the overall operating standard and quality control of its milk sources suppliers. Since its establishment, the Group has adopted different means such as provision of entrusted loans, raw milk prepayment, investment in large-scale ranches and building of modernised ranch facilities to promote the diversification of breeding of milk cows and scaled ranching. Scaled ranching is a viable model for the development of milk sources that procures centralised feeding, vaccination, quality control, administration of veterinary drugs and feed for milk cows.

During the period under review, the proportion of the Group's milk sources provided by the scaled ranches was leading in the industry. The Group has already entered into long-term strategic cooperation relationship with a leading ranching group in China, which ranked tops in the country's dairy industry in terms of the quantity of stable and premium milk sources.

With respect to the control over milk sources, Mengniu achieved effective tracking of raw milk, feeds for milk cows and the use of veterinary drugs. Through centralised bidding, a service center of veterinary drugs was built that employed veterinarians to control the use of veterinary drugs. The quality and safety of milk is thus assured through the protection of milk cows from the safety perspective. It is expected by the Group that the proportion of raw milk sourced from ranches and scaled farms will reach 100% by 2015, improving the product quality from its sources.

With respect to ranch management, the Group entered into strategic cooperation with Arla Foods. Management systems of European standards will be introduced, which will mobilize the development of the ranching segment towards international standards.

Products

As China's economy grows, consumers have stronger demand for products with higher quality. In response, the Group has adjusted its product strategies by developing and launching a series of new high-end products. We have also strengthened international cooperation to import advanced dairy product technology, enabling China's consumers to enjoy dairy products in an international perspective. In addition, the Group's products have been successfully launched in markets such as Hong Kong, Macau, Singapore and Mongolia.

The Group's business principally comprises three major categories including liquid milk, ice cream and other dairy products, with their respective performances outlined as follows:

Product category	Financial performance	Major developments during the period	Key products
Liquid milk	Revenue amounted to RMB15,940.8 million (2011: RMB16,294.9 million), accounting for 86.8% (2011: 87.7%) of the total revenue of the Group.		
UHT milk	Revenue amounted to RMB9,621 million (2011: RMB9,795.3 million), accounting for 60.4% (2011: 60.1%) of the liquid milk segment revenue.	Targeting the mid to high-end market with tailored products categories, the Group launched *Awakening Youth Milk (煥輕牛奶)* series which helps to improve the health of the bones and the cardiovascular system for the middle-aged and the elderly, and *Future Star Kid Milk (未來星小小兒童成長牛奶)* series which targets children aged 3 to 6. Furthermore, the entire line of *Future Star Miao Miao Milk (未來星妙妙兒童成長牛奶)* series were upgraded with "SpongeBob" cartoon packaging, enhancing attractiveness to children.	*Milk Deluxe (特侖蘇)* *XinYangDao (新養道)* *Awakening Youth Milk (煥輕牛奶)* *Future Star Milk (未來星兒童牛奶)*
Milk beverages	Revenue amounted to RMB3,987.6 million (2011: RMB4,247.1 million), accounting for 25% (2011: 26.1%) of the liquid milk segment revenue.	Leveraged on a wide variety of flavour selections and dynamic and creative packaging design, milk beverages continued to attract young consumers. *Youyi C (優益C)* enjoyed rapid growth and appealed to consumers.	*Fruit Milk Drink (真果粒)* *Youyi C (優益C)* *Yiyou Te (益優特)*
Yogurt	Revenue amounted to RMB2,332.2 million (2011: RMB2,252.5 million), accounting for 14.6% (2011: 13.8%) of the liquid milk segment revenue.	Yogurt products continued to dominate the market with its diverse product portfolio.	*Champion (冠益乳)* *Inner Mongolia Old Yogurt (內蒙古老酸奶)* *European Double Layer Fruit Yogurt (歐式雙層果乳酪)*
Ice cream	Revenue amounted to RMB2,158.3 million (2011: RMB2,083 million), accounting for 11.8% (2011: 11.2%) of the revenue of the Group.	Ice cream products underwent ongoing upgrade towards the high-end segment. High-quality healthy products were produced and profit margins were improved by means including modifying formula. High-end product *Deluxe (蒂蘭聖雪)* Gelato ice cream with Italian expertise were newly launched.	*Deluxe(蒂蘭聖雪)* *Sui Bian (隨變)* *Ice+ (冰+)* *Mood for Green (綠色心情)*

Product category	Financial performance	Major developments during the period	Key products
Other dairy products	Revenue amounted to RMB261.5 million (2011: RMB200.7 million), accounting for 1.4% (2011: 1.1%) of the revenue of the Group.	*MENGNIU ARLA (歐世蒙牛)* commenced the "Trustworthy Milk Powder" (放心乳粉) project for the entire product line in response to the current condition of the domestic milk powder market in China, enabling consumers to quickly access product test reports. The initial market response was positive.	*MENGNIU ARLA (歐世蒙牛)* *Distingue Cheese (締芝特奶酪)* *Growth Cheese (成長奶酪)*

There are currently a total of 57 brands covering different categories of Mengniu's products. In the future, emphasis will be placed on the consolidation of its products portfolio so as to optimise the branding and products structure. On one hand, certain sub-brands with better sales will be expanded into other product categories, concentrating resources to build brands with competitive advantages, which will enhance product reputation. On the other hand, the Group will conduct R&D regarding each market segment, and launch functional and innovative products with high added value. Current product lines will also be upgraded. The proportion of mid to high end products will be enhanced, thereby increasing overall profitability.

Branding and Marketing

During the period under review, the Group adopted the theme of "Selection through Trust" (因為信賴，所以選擇) to conduct marketing activities for our brands. We sought to communicate the value of our brand to the public through widely discussed issues.

During the period in which a number of major sports events were held in 2012, namely The NBA Finals, The World Table Tennis Championships and the UEFA Euro 2012, Mengniu launched a series of television advertisements under the theme of "Selection through Trust" accordingly. At the same time, Mengniu was honoured as the "only designated dairy product for the China's Space Program" (中國航天選用乳製品) for the ninth time. We captured the historical moment of the successful launch of "Shenzhou 9" spacecraft and launched advertisements, which enhanced our brand awareness and improved our brand's image.

Moreover, with its commitment to social responsibility, Mengniu actively participated in community activities, and highlighted its contributions to society. Of which, Mengniu once again became the partner of the World Wide Fund for Nature (WWF) to promote the activity of "Earth Hour" (地球一小時). The Group continued to initiate community projects such as "Ecological Movement Support China" (生態行動，助力中國)and "Charity Well Project" (愛心井項目) in 2012. We also sponsored the charity event of "Searching for the Most Beautiful Women Teachers in Rural Area" (尋找最美鄉村女教師)held by CCTV, conveying the love of Mengniu to the public.

During the period under review, the Company actively conducted exchange with various sectors of the public about "The New Mengniu Listens with Heart" (新蒙牛，心溝通), which reinforced our corporate mission of becoming the dairy enterprise with best quality products and most professional and dedicated services; proposed the vision of New Mengniu and offered consumers dairy products that are safe, healthy and of high quality; grew strong together with its customers, staff, shareholders and all of its stakeholders; and delivered its corporate value of "Sunshine, Nobility, Responsibility and Innovation" (陽光、高尚、責任、創新).

According to the statistics provided by Nielsen Company, the market share of the Group's liquid milk and yogurt products continued to rank top in China. Furthermore, Mengniu was named as one of the Top 20 Global Dairy Enterprises (全球乳業20強) by Rabobank for the fourth consecutive year.

Collaboration with Arla Foods

On 15 June 2012, Mengniu entered into the strategic cooperation agreement with Arla Foods, an European dairy enterprise, in order to establish a long-term strategic cooperation relationship. Furthermore, Arla Foods acquired equity interest in Mengniu and became the second largest strategic shareholder.

Arla Foods will participate in the daily operations of Mengniu, which will include engaging the management team to introduce the ranch management system from Denmark, and applying its quality control system reputable in the international dairy industry to Mengniu's comprehensive quality management system. New technologies will be introduced to enhance the yield rate per dairy cattle and to cultivate a professional ranch management team. The Group has officially commenced the "Dawn Scheme" (晨曦計劃), which will assign about 100 outstanding staff in phases to study dairy products management at Arla Foods in Denmark. The Group will therefore build a reserve of professional people for the Group's development in future.

Also, Mengniu has been appointed by the Ministry of Agriculture of the People's Republic of China to participate in the strategic cooperation with the Ministry of Food, Agriculture and Fisheries of the Kingdom of Denmark, to establish the China-Denmark Milk Technology and Cooperation Center with Arla Foods. This centre has been designated as a platform for exchanging experiences in ranch management and risk control on the basis of the ranch management system operating in Denmark. Experts will also be introduced to develop advanced technologies for the dairy industry as well as implement exchange of ideas and collaboration with officials and professionals. It is expected that the cooperation among business enterprises and the communities as well as the milk farmers will be improved with better understanding of the development models in the dairy industry of Denmark. These efforts aim to upgrade the dairy industry in China in line with international standards. This cooperation with Denmark is also expected to demonstrate the dairy industry in China as a sample of international exchange and cooperation ventures, thereby improving the overall standards of the dairy industry in China.

R&D Achievements

The Group's dairy products R&D center is an integrated organization that is capable of conducting a wide range of activities including product development, application studies and product testing. By utilising state-of-the-art international equipment and a pilot plant meeting GMP standards, it can conduct pilot run for both current and new dairy products and serves as a high-tech testing platform for technological innovation and also as a support for product optimisation and product development. Taking *Youyi C* as an example, the Group has obtained patents for this product's taste and texture developed through self-developed techniques, forming a technical barrier to competitors. Another product, *Fruit Milk Drink* has adopted Mengniu's exclusive separate sterilisation of milk and fruit particles and has become the world's first fruit milk drink product that can be stored in normal temperature for a long period. A total of 50 patents were applied for and 72 patents were obtained during the period under review.

The Group will put more efforts into the product R&D and innovation that are in line with the Company's strategies and jointly develop industry-leading products through the resources from strategic shareholders, Arla Foods and COFCO Nutrition and Health Research Institute in the future.

Production and Operations

According to future potential market and deployment demand for product development, the Group has continuously expanded its scale of production. As at June 2012, the aggregate annual production capacity was 7.39 million tons (December 2011: 7.05 million tons).

Human Resources

As at 30 June 2012, the Group had approximately 26,800 employees in Mainland China and Hong Kong. Total staff costs for the period, excluding the directors' remuneration, were approximately RMB877.6 million (2011: RMB839 million).

Since 2012, the Group recruited more senior professionals, especially increasing the proportion of management talent with working experience in international fast moving consumer goods (FMCG) companies to support the strategic development requirements of the Group, especially in the areas of quality, brand and R&D.

Prospects

During the second half of 2012, the dairy industry in China would continue to grow and become more standardised under the influence of state policies. According to statistics, the consumption of dairy products per capita in China was 26.47 kg for the full year of 2011. Such figure was substantially lower than the consumption of 119.83 kg per capita in the United States. Hence, there is great potential for the development of the market for dairy products in China.

The year 2012 is an extremely challenging year for Mengniu. It is the vision of the Group to become a dairy enterprise that delivers products of the best quality and in the most professional and devoted manner. It is the mission of the Group to deliver safe, premium and healthy dairy products to consumers. The Group will also grow stronger along with our customers, staff, shareholders and all stakeholders. Mengniu will continue to strengthen its communication with consumers, investors, industry experts and the media, which will improve its transparency and enhance the brand image of Mengniu.

In face of the challenges and opportunities arising in the dairy products industry, the Group will continue to improve and enhance its quality control system. Upstream milk sources establishment and monitoring will be improved and internal control risk system will be enhanced. The Group's product portfolio will be reorganized according to the market demand. The Group will also lead the healthy development of the industry.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to 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 2012.

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 2012.

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 2012.

AUDIT COMMITTEE

The Audit Committee currently comprises four Independent Non-executive Directors, namely Mr. Xie Tao (chairman), Mr. Jiao Shuge (alias Jiao Zhen), 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 2012.

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 2012 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 same websites in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Executive Directors are Ms. Sun Yiping, Mr. Bai Ying, Mr. Wu Jingshui and Mr. Ding Sheng. The Non-executive Directors are Mr. Ning Gaoning, Mr. Yu Xubo, Mr. Niu Gensheng, Mr. Ma Jianping, Mr. Tim Ørting Jørgensen and Mr. Finn S. Hansen. The Independent Non-executive Directors are Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, 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
Sun Yiping
Chief Executive Officer

Hong Kong, 28 August 2012