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 2013

HIGHLIGHTS:

For the six months ended 30 June (Unaudited)	**2013** *RMB'000*	2012 *RMB'000*	Change %
Revenue	**20,667,981**	18,243,824	13.3%
Gross profit	**5,519,154**	4,643,553	18.9%
Profit attributable to owners of the Company	**749,494**	644,690	16.3%
Net cash inflow from operating activities	**2,331,577**	1,156,476	101.6%
Earnings per share *(RMB)*			
– Basic	**0.419**	0.365	14.8%
– Diluted	**0.419**	0.365	14.8%

- Continued to optimise the management and control over quality and safety, strengthened efforts to build milk sources, integrated sales channels and improved its information systems, so as to comprehensively support its rapid development and as a result, successfully boosted the Group's revenue and profit.
- Took advantage of the synergies from the strategic cooperation with Danone Group and Yashili and the closer cooperation with Arla Foods, to further expand Mengniu's yogurt and milk formula businesses.
- Embarked on a strategic initiative "Brand Focus, Standards Establishment, Network Exploitation and Selling Power Enhancement," aimed at driving an increase in sales. According to data released by Nielsen, a marketing research firm, Mengniu continued to rank first in terms of the market share of liquid milk and yogurt in the first half of 2013.
- Streamlined product portfolio by reducing the number of brands and organising them in groups each with a clear role to play for the growth and profitability of the Group.
- With production capacity aligned with market potential and product strategies, Mengniu has set up 28 production bases across the country with a total production capacity of 7.59 million tonnes as of June 2013.
- Adopted a restricted share award scheme. Through the grant of restricted shares to the core management team and outstanding employees at all levels, Mengniu has shared the fruits of its business development with its employees, directly linking the interests of employees with those of the Group and its shareholders.

* *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 2013, 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

	Notes	**Unaudited For the six months ended 30 June 2013 *RMB'000***	2012 *RMB'000 Restated**
Revenue	*4*	**20,667,981**	18,243,824
Cost of sales		**(15,148,827)**	(13,600,271)
Gross profit		**5,519,154**	4,643,553
Other income and gains	*4*	**129,636**	108,435
Gain arising from changes in fair value less cost to sell of dairy cows		**13,087**	–
Selling and distribution costs		**(3,806,962)**	(3,191,812)
Administrative expenses		**(809,531)**	(563,449)
Other operating expenses	*5*	**(137,680)**	(124,860)
Profit from operating activities		**907,704**	871,867
Interest income		**132,423**	101,774
Finance costs	*7*	**(33,714)**	(10,581)
Share of profits and losses of associates and joint ventures		**29,651**	(60,470)
Profit before tax	*6*	**1,036,064**	902,590
Income tax expense	*8*	**(185,684)**	(154,678)
Profit for the period		**850,380**	747,912
Attributable to:			
Owners of the Company		**749,494**	644,690
Non-controlling interests		**100,886**	103,222
		850,380	747,912
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)	*9*		
– Basic		**0.419**	0.365
– Diluted		**0.419**	0.365

Details of the dividends payable and proposed for the period are disclosed in Note 10.

* Certain amounts stated above do not correspond to the interim condensed consolidated financial statements as at 30 June 2012 but reflect the adjustments made as described in Note 15.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000 Restated*
NON-CURRENT ASSETS			
Property, plant and equipment		**8,160,671**	7,739,259
Construction in progress		**765,478**	596,812
Land use rights		**803,635**	801,191
Long term prepayments		**296,497**	299,947
Goodwill		**747,351**	482,436
Biological assets		**398,676**	211,686
Other intangible assets		**239,696**	224,228
Investments in associates		**2,763,406**	77,921
Available-for-sale investments		**295,545**	509,788
Deferred tax assets		**57,342**	72,093
Other financial assets		**52,173**	53,521
		14,580,470	11,068,882
CURRENT ASSETS			
Available-for-sale investments		**–**	240,000
Inventories		**1,385,658**	1,362,673
Bills receivable	*11*	**272,972**	172,596
Trade receivables	*12*	**867,165**	683,112
Prepayments and deposits		**1,058,306**	947,966
Other receivables		**293,491**	477,022
Investment deposits		**850,000**	160,000
Pledged deposits		**444,823**	51,602
Cash and bank balances		**7,389,036**	5,752,041
		12,561,451	9,847,012
CURRENT LIABILITIES			
Trade payables	*13*	**3,499,210**	2,332,550
Bills payable	*14*	**993,468**	1,296,910
Deferred income		**19,389**	19,056
Other payables		**2,349,161**	1,575,266
Accruals and customers' deposits		**914,004**	975,645
Interest-bearing bank loans		**3,957,676**	573,777
Other loans		**33,187**	24,915
Income tax payable		**63,470**	58,426
		11,829,565	6,856,545
NET CURRENT ASSETS		**731,886**	2,990,467
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,312,356**	14,059,349

	Unaudited 30 June 2013 *RMB'000*	Audited 31 December 2012 *RMB'000* *Restated**
NON-CURRENT LIABILITIES		
Interest-bearing bank loans	**18,941**	–
Long term payables	**110,088**	144,593
Deferred income	**205,015**	215,740
Deferred tax liabilities	**–**	33,051
Other financial liabilities	**633,768**	544,858
	967,812	938,242
NET ASSETS	**14,344,544**	13,121,107
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**185,350**	181,151
Shares held under Restricted Share Award Scheme	**(131,812)**	–
Retained earnings	**4,371,291**	3,816,793
Other reserves	**9,297,055**	8,491,301
	13,721,884	12,489,245
Non-controlling interests	**622,660**	631,862
TOTAL EQUITY	**14,344,544**	13,121,107

* Certain amounts stated above do not correspond to the audited consolidated financial statements as at 31 December 2012 but reflect the adjustments made as described in Note 15.

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 CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2013 have been prepared in accordance with IAS 34 *Interim Financial Reporting* and the disclosure requirements of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

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 2012.

New standards, interpretations and amendments adopted by the Group

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 2012, except for the adoption of the following new or revised standards and interpretations as of 1 January 2013.

The Group applies, for the first time, certain standards and amendments that require restatement of previous financial statements. These include IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 19 (Revised 2011) *Employee Benefits*, IFRS 13 *Fair Value Measurement* and amendments to IAS 1 *Presentation of Financial Statements*. As required by IAS 34, the nature and the effect of these changes are disclosed below. In addition, the application of IFRS 12 *Disclosure of Interest in Other Entities* would result in additional disclosures in the annual consolidated financial statements.

Several other new standards and amendments are applicable for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

The nature and the impact of each new standard/amendment is described below:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments affected presentation only and had no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for interim condensed financial statements do not include a third balance sheet.

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 *Financial Instruments*: Presentation clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim condensed consolidated financial statements for the Group, as there are no tax consequences attached to cash or non-cash distribution.

IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker. The amendment did not have an impact on the interim condensed consolidated financial statements for the Group, as the Group has disclosed the relevant segment information.

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit or loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. As the Group has no defined benefit plans, the amendment does not have an impact on the Group.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously in IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities-Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.

The application of this new standard impacted the financial position of the Group by replacing proportionate consolidation of the joint venture in Mengniu Arla (Inner Mongolia) Dairy Products Co., Ltd ("Mengniu Arla") (see Note 15) with the equity method of accounting. IFRS 11 is effective for annual periods beginning on or after 1 January 2013. The effect of IFRS 11 is described in more detail in Note 15, which includes quantification of the effect on the financial statements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specially required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements.

In addition to the above-mentioned amendments and new standards, IFRS 1 First-time Adoption of International Financial Reporting Standards was amended with effect for reporting periods beginning on or after 1 January 2013. The Group is not a first-time adopter of IFRS, therefore, this amendment is not relevant to the Group.

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

3. 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 the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit or loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, share of profits and losses of associates and joint ventures, 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 2013 (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	**18,262,536**	**1,954,407**	**451,038**	**–**	**20,667,981**
Intersegment sales	**131,536**	**19,465**	**53,859**	**(204,860)**	**–**
Total	**18,394,072**	**1,973,872**	**504,897**	**(204,860)**	**20,667,981**
Segment results	**1,087,114**	**40,584**	**(46,889)**	**–**	**1,080,809**
Interest income					**132,423**
Finance costs					**(33,714)**
Share of profits and losses of associates and joint ventures					**29,651**
Unallocated corporate expenses					**(173,105)**
Profit before tax					**1,036,064**
Income tax expense					**(185,684)**
Profit for the period					**850,380**

At 30 June 2013 (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	**17,785,602**	**1,798,266**	**1,113,644**	**–**	**20,697,512**
Intragroup elimination					**(6,700,004)**
Unallocated corporate assets					**13,144,413**
Total assets					**27,141,921**
Segment liabilities	**12,542,465**	**1,457,136**	**961,390**	**–**	**14,960,991**
Intragroup elimination					**(6,700,004)**
Unallocated corporate liabilities					**4,536,390**
Total liabilities					**12,797,377**

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	15,963,272	2,158,257	122,295	–	18,243,824
Intersegment sales	103,774	66	86,846	(190,686)	–
Total	16,067,046	2,158,323	209,141	(190,686)	18,243,824
Segment results	993,748	59,793	(5,933)	–	1,047,608
Interest income					101,774
Finance costs					(10,581)
Share of profits and losses of associates and a joint venture					(60,470)
Unallocated corporate expenses					(175,741)
Profit before tax					902,590
Income tax expense					(154,678)
Profit for the period					747,912

At 31 December 2012 (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	16,458,513	1,405,014	366,459	–	18,229,986
Intragroup elimination					(5,233,628)
Unallocated corporate assets					7,919,536
Total assets					20,915,894
Segment liabilities	10,988,647	816,066	393,189	–	12,197,902
Intragroup elimination					(5,233,628)
Unallocated corporate liabilities					830,513
Total liabilities					7,794,787

4. REVENUE, OTHER INCOME AND GAINS

Revenue, being the turnover of the Group, represents the net invoiced value of goods sold, after allowances for goods returns and trade discounts, and after eliminations of all significant intra-group transactions.

An analysis of the Group's revenue, other income and gains is as follows:

		Unaudited For the six months ended 30 June	
	Notes	**2013** ***RMB'000***	2012 *RMB'000*
Revenue:			
Sales of goods		**20,667,981**	18,243,824
Other income and gains:			
Government grants related to			
– Assets	*(a)*	**9,695**	9,361
– Income	*(b)*	**30,573**	81,823
Foreign exchange gains, net		**73,583**	–
Others		**15,785**	17,251
		129,636	108,435
		20,797,617	18,352,259

Notes:

(a) The Group has received certain government grants in the form of property, plant and equipment donations or cash donations to purchase items of property, plant and equipment. The grants are initially recorded as deferred income and amortised to match the depreciation charge of the underlying property, plant and equipment in accordance with the assets' estimated useful lives.

(b) The government grants in the form of cash donations have been received for the Group's contribution to the development of the local dairy products industry. There are no unfulfilled conditions or contingencies attaching to these grants.

5. OTHER OPERATING EXPENSES

	Unaudited	
	For the six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Provision for trade receivables and other receivables	**144**	15,962
Provision for inventories	**286**	5,283
Loss on disposal of items of property, plant and equipment	**11,990**	1,191
Donations	**11,513**	2,610
Tax associated charges	**93,832**	70,539
Foreign exchange losses, net	**–**	17,135
Others	**19,915**	12,140
	137,680	124,860

6. PROFIT BEFORE TAX

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

	Unaudited	
	For the six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Cost of inventories sold	**15,148,827**	13,596,975
Realised and unrealised fair value losses of derivative financial instruments, net	**–**	3,296
Cost of sales	**15,148,827**	13,600,271
Depreciation of property, plant and equipment	**562,627**	465,161
Amortisation of land use rights	**10,408**	7,213
Amortisation of other intangible assets	**6,992**	3,891
Employee benefit expense (excluding directors and senior executive's emoluments)	**1,363,124**	877,595

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Unaudited For the six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
Interest on long term payables	**7,201**	6,754
Interest on bank loans wholly repayable within five years	**18,133**	1,414
Increase in discounted amounts of contingent consideration arising from the passage of time	**8,380**	2,413
	33,714	10,581

8. 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	
	2013	2012
	RMB'000	*RMB'000*
Current income tax		
Current income tax charge	**170,933**	149,403
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences	**14,751**	5,275
	185,684	154,678

(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 tax policies relating to the implementation of western China development strategy"; and (iii) "The notice of preferential tax policy for preliminary processing of agricultural products".

9. 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 **2013** ***RMB'000***	 2012 *RMB'000*
Profit attributable to ordinary equity holders of the Company	**749,494**	644,690
	Number of shares ***(in thousand)***	Number of shares *(in thousand)*
Weighted average number of ordinary shares less shares held for Restricted Share Award Scheme for the purpose of the basic earnings per share calculation	**1,786,914**	1,767,571
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the period	**1,351**	58
Weighted average number of ordinary shares for the purpose of the diluted earnings per share calculation	**1,788,265**	1,767,629

10. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil). During the six months ended 30 June 2013, the Company declared and paid final dividends of RMB0.16 (six months ended 30 June 2012: RMB0.198) per share as proposed for the year ended 31 December 2012 to the shareholders of the Company.

11. BILLS RECEIVABLE

An aged analysis of the bills receivable of the Group is as follows:

	Unaudited **30 June 2013** ***RMB'000***	Audited 31 December 2012 *RMB'000*
Within 3 months	**191,866**	121,600
4 to 6 months	**81,106**	50,996
	272,972	172,596

12. 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 2013 *RMB'000*	Audited 31 December 2012 *RMB'000*
Within 3 months	**745,701**	491,954
4 to 6 months	**97,712**	182,074
7 to 12 months	**22,941**	7,240
Over 1 year	**811**	1,844
	867,165	683,112

13. TRADE PAYABLES

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

	Unaudited 30 June 2013 *RMB'000*	Audited 31 December 2012 *RMB'000*
Within 3 months	**3,414,616**	2,283,674
4 to 6 months	**55,483**	32,727
7 to 12 months	**25,684**	12,442
Over 1 year	**3,427**	3,707
	3,499,210	2,332,550

14. BILLS PAYABLE

An aged analysis of the bills payable of the Group is as follows:

	Unaudited **30 June 2013** ***RMB'000***	Audited 31 December 2012 *RMB'000*
Within 3 months	**593,183**	600,589
4 to 6 months	**400,285**	696,321
	993,468	1,296,910

15. INVESTMENT IN A JOINT VENTURE

The Group has a 50% interest in Mengniu Arla. Under IAS 31 Investment in Joint Ventures (prior to the transition to IFRS 11), the Group's interest in Mengniu Arla was classified as a jointly controlled entity and the Group's share of the assets, liabilities, revenue, income and expenses were proportionately consolidated in the consolidated financial statements. Upon the adoption of IFRS 11, the Group has determined its interest to be a joint venture and it is required to be accounted for using the equity method. The initial investment as at 1 January 2012 is measured as the aggregate of the carrying amounts of the assets and liabilities that the Group has previously proportionately consolidated to the extent that the Group's investment in the joint venture is reduced to zero. The effect of applying IFRS 11 in the comparative period is as follows:

Impact on the condensed consolidated income statement	For the six months ended 30 June 2012 *RMB'000*
Decrease in revenue	(116,742)
Decrease in cost of sales	49,753
Decrease in gross profit	(66,989)
Decrease in other income and gains	(349)
Decrease in selling and distribution expenses	105,640
Decrease in administrative expense	6,146
Decrease in other operating expenses	3,860
Increase in operating profit	48,308
Decrease in interest income	(73)
Decrease in finance costs	1,456
Share of losses of a joint venture	(49,691)
Net impact on profit before tax	–
Net impact on income tax expense	–
Net impact on profit for the period	–

Impact on the consolidated statement of financial position	As at 31 December 2012 *RMB'000*
Decrease in property, plant and equipment	(152,655)
Decrease in land use rights	(6,252)
Decrease in other intangible assets	(1,749)
Increase in trade receivables	58,025
Decrease in bills receivable	(3,790)
Decrease in inventories	(57,225)
Decrease in prepayments and deposits	(1,990)
Increase in other receivables	117,145
Decrease in cash and bank balance	(26,349)
Decrease in assets	(74,840)
Decrease in trade payables	(49,405)
Decrease in other payables	(56,878)
Decrease in accruals and customers' deposits	(17,815)
Decrease in liabilities	(124,098)
Increase in equity	49,258

As at 31 December 2012, the Group's unrecognized share of accumulated losses of the investment in a joint venture was RMB49,258,000, as the Group has no legal or constructive obligation for the losses or the negative net assets and accordingly the Group did not recognise the corresponding liabilities and adjusted it against the retained earnings.

This change in accounting policy does not have material impact on interim condensed consolidated statement of cash flow, other comprehensive income or the basic and diluted EPS.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

According to the data of the National Bureau of Statistics, total retail sales of social consumer goods in the first half of 2013 jumped by 12.7% year-on-year to RMB11,076.4 billion. China's consumer market has been showing a moderate upward trend, which is expected to pick up further in the second half of the year. Meanwhile, along with the acceleration of urbanisation, more than 10 million new migrants have fuelled a huge market demand within the second and third-tier cities each year. Moreover, the development potential of the rural market has yet to be fully uncovered. All these factors represent a wide array of opportunities to tap China's consumer market.

The dairy industry has maintained steady growth, as reflected in a nationwide dairy cumulative production of 13 million tonnes as of the first half of 2013, a year-on-year growth of 11.63%. However, China's annual per capita consumption of dairy products was only 23 kg, much lower than the rest of Asia at 50 kg and was even far behind the world's average level. Notwithstanding this, driven by the rising demand for healthy and high-end dairy products and the increasing spending power of people in China, the dairy industry is expected to enjoy broader room for development.

In addition, the Chinese government is determined to rectify the dairy industry. The government has endeavoured to enhance the level of safety of dairy products, hence to boost consumers' confidence through the implementation of stringent regulatory measures. It has also encouraged the pooling of resources to support large enterprises with a strong competitive edge. According to the target of the Ministry of Industry and Information Technology, the degree of industry concentration will be increased to 70% within two years. The dairy industry has entered a new round of consolidation.

Business Review

Following the internal structural adjustment in 2012, Mengniu has gradually refined the details, which has helped bolster synergies among various departments. Meanwhile, in line with the consolidation and the internationalisation trend in China's dairy industry, Mengniu has made efforts to actively expand its business under the support of the COFCO Group, its major shareholder. In the first half of the year, Mengniu engaged in mergers and acquisitions as well as strategic partnerships with three companies, including China Modern Dairy Holdings Ltd. ("Modern Dairy", Stock Code: 1117), Danone S.A. and its subsidiaries (collectively the "Danone Group") and Yashili International Holdings Ltd ("Yashili", Stock Code: 1230). These partnerships enabled the Group to pave a solid path for rapid development in the future, while bolstering its product safety and quality.

According to the data released by Nielsen, a marketing research firm, Mengniu ranked first in terms of the market share of liquid milk and yogurt in the first half of 2013. In addition, Mengniu's liquid milk was granted two awards by the China Industrial Information Issuing Center in March 2013, namely the "Most Credible Consumer Brand in 2012" and the "Best Nationwide Seller in Sales Volume and Sales Amount in Its Category in 2012".

Strategic Cooperation

– with Modern Dairy

On 8 May 2013, the Company announced that it has agreed to acquire approximately 26.92% of the then issued shares of Modern Dairy at a total consideration of approximately HK$3,177.52 million. The Company became the largest single shareholder of Modern Dairy upon completion of such acquisition. Together with an approximately 1.08% interest originally held, the Company currently has an aggregate holding of approximately 28% of issued shares of Modern Dairy. According to the Dairy Association of China, Modern Dairy is the leading raw milk producer in terms of herd size. It was the first diary company to introduce advanced international management to China's dairy breeding industry, which helped to strictly control raw milk production processes and provide consumers with safe and quality dairy products. Modern Dairy is a long-term partner of the Group, and its largest raw milk supplier. Through the increase in shareholding, Mengniu is in a better position to assure quality milk sources and to exert its advantage in quality milk sources. This is consistent with the Group's development strategy. Moving ahead, Mengniu is to bolster closer cooperation with Modern Dairy and apply its advanced ranch management experience to Mengniu's self-built ones.

– With Danone Group

On 20 May 2013, the Company, through its operating subsidiary, entered into a framework agreement with a subsidiary of Danone S.A., the world's leading producer of fresh dairy products, in relation to the proposed establishment of a joint venture which will be engaged in the production and sales of chilled yogurt, chilled yogurt drinks and spoonable dairy based dessert in China. The two parties are to contribute to and reorganise their chilled products businesses in China for the joint venture. On 9 August 2013, the parties further entered into the Equity Joint Venture Contract in relation to the establishment of a joint venture holding company. An 80% interest in the joint venture was held by Mengniu Group, with the remaining 20% interest held by Danone Group. In addition, according to an agreement between the COFCO Group and Danone, Danone has officially became a strategic shareholder of Mengniu holding an effective interest of approximately 4% in Mengniu on 28 June 2013 through a joint venture co-established with the COFCO Group. Building on Danone Group's global-leading technology in the research and development of yogurt, coupled with its brand management and marketing expertise, Mengniu will further tap the potential of China's yogurt market, while beefing up Mengniu's technological innovation capabilities in the dairy industry and providing consumers with quality dairy products.

– With Yashili

On 18 June 2013, Mengniu announced to make a general offer to Yashili at a consideration of approximately HK$11.4 billion, which was the largest acquisition in China's milk formula industry. The acquisition was approved at the extraordinary general meeting held on 16 July 2013. As at 13 August 2013 (the final closing date of the offer), valid acceptances of the share offer have been received in respect of 3,196,747,945 Yashili shares, representing approximately 89.82% of the issued share capital of Yashili. Upon completion of the acquisition, Yashili will retain its independent operating platform. Yashili is currently one of the largest manufacturers and distributors of domestic milk formula in China. Its quality imported dairy raw materials, self-developed milk formula products, advanced production systems and professional marketing team which is familiar with China's consumer market will bring significant growth to the milk formula business of Mengniu, thus enabling the Group to capture swift growth opportunities in the domestic pediatric milk formula market.

– With Arla Foods

During the period, through the platform of the China-Denmark Milk Technical and Cooperation Center, Mengniu introduced a series of advanced dairy technology from Denmark. Specifically, the first phase of development and validation of the fingerprint spectrum testing project for raw milk systems has been successfully completed, and the second phase has commenced. Through collaboration with Denmark's FOSS Analytical A/S Company and Arla Foods, research efforts were made to put in place 11 testing methods for China's raw milk quality.

In respect of products, Mengniu has gradually introduced products such as Arla Foods' UHT organic milk and *Baby & Me* premium pediatric organic milk formula. In May 2013, Arla Foods took part in Asia's largest and most influential event of its kind, the "BioFach China 2013 – China International Organic Trade Fair and Conference". In light of current concerns over the safety of pediatric food, Arla Foods' organic products and traceable concept were well-received by a large number of consumers, thus paving the way for product launch across various cities in China during the second half of the year. In the future, Mengniu will continue to introduce quality products from Arla Foods such as cheese and butter. On the professional front, Mengniu continued to introduce market and technology professionals from Arla Foods to support Mengniu's daily operations. In addition, Mengniu actively explored new areas of cooperation by periodically hosting China-Denmark experts' seminars, so as to promote the exchange and collaboration among experts from both parties.

Quality Management

In 2012, Mengniu has established the "four carriages", specifically a quality and safety management system and three quality management centres on milk sources, operations and sales respectively, perfecting and optimising the new quality management system. Currently, the efforts in operational coordination are beginning to pay off. With clear division of labour, Mengniu has set up specific management standards for a number of key processes of quality management. These standards are to ensure that quality management is implemented across the industrial chain as well as enhancing its end-to-end food quality control capability. Mengniu also provided the management teams of these centers with regular training, so that members would be knowledgeable in all aspects of quality management standards and processes. With an accountability mechanism in place, the personnel in charge of specific business segments would pay close attention to quality control, so that the scope and reach of the quality management could be effectively extended to the business frontline in a comprehensive manner. The end-to-end quality safety management system enables Mengniu to fully integrate with international standards and establish ranch technology standards, implement strict production process controls, unify quality management and assessment criteria and strengthen a laboratory management and testing system. Meanwhile, Mengniu has built up a checking system that enables distributors to review reports of related products and track product quality via the Internet at any time.

In addition, supported and witnessed by the Chinese and New Zealand governments, Mengniu and AsureQuality Limited, an internationally renowned food quality and safety certification organisation and a state-owned enterprise in New Zealand, collaborated with COFCO and PricewaterhouseCoopers in New Zealand to enter into a cooperation framework agreement in Beijing. The agreement is in relation to the establishment of a third-party independent certification body on food quality and safety. The partnership enabled Mengniu to lead the way to implement a world-class food quality and safety certification across a dairy industry-wide supply chain (including upstream ranches) in China. This initiative enables Mengniu to further reinforce its control over food quality and safety, and adds impetus to the full integration of China's dairy industry with international standards.

Building Milk Sources

Mengniu remained focused on enhancing the quality of milk sources, and forged closer cooperation with raw milk suppliers. During the period, Mengniu has raised its milk sources provided by ranches and scaled farms to 94% over last year, maintaining the top spot in the industry.

To further optimise the structure of milk sources, on the one hand, Mengniu adheres to a comprehensive management model for self-built ranches, ranches in which it holds shares and ranches where it has controlling interest. Mengniu has introduced Danish ranch management systems for the integration of domestic quality ranches and the establishment of a quality milk source base. The construction and management of ranches is based on international milk sources standards. On the other hand, a delegated administration model was used for ranches that Mengniu cooperates with, under which ownership and management were independent. Mengniu's professional team will provide training and technical personnel to these ranches, with a view to improving efficiency and increasing income. This assistance has assured the quality of raw milk, heralding the transformation of the upstream dairy industry towards an intensive, standardised breeding mode.

As of the end of June 2013, Mengniu has begun the construction of eight self-built ranches, among which six ranches have already been put into operation. The number of dairy cows at the six ranches was 15,000, which were expected to ready for milking by the end of 2014. In addition, with the initiation of the Arla Garden ranch management combined with the Arla Foods ranch management model and Mengniu's production management model, Mengniu has put in place a unique, standard ranch operating model and applied it to its self-built ranches as a demonstration model.

Sales Channels

In 2013, Mengniu embarked on a strategic initiative "Brand Focus, Standards Establishment, Network Exploitation and Selling Power Enhancement", aiming at driving an increase in sales. In relation to the brand focus, the Group enhanced the distribution rate of key products such as *Pure Milk (純牛奶)*, *Suan Suan Ru (酸酸乳)*, *Fruit Fiber (果纖維)*, *Youyi C (優益C)* and *Deluxe (特侖蘇)*. In respect of the standards establishment, focused efforts were made on the formulation of standards for various aspects of the sales channels in reaction to the changing circumstances of the dairy industry, so as to improve efficiency. In connection with network exploitation, Mengniu strived to enhance the coverage of retail outlets by expanding key points of sales. For selling power enhancement, the Group strived to boost staff morale and foster sales growth through the development of distribution standards and channel distribution policies such as package promotion and gift distribution. In addition, Mengniu's sales and distribution management personnel will share successful case studies regarding the expansion of outlets on a monthly basis.

Mengniu has focused on optimising its sales teams and the sales structure of dealers. With its own sales teams, Mengniu has provided standard operations training and tracking services, in order to help dealers improve their sales performance. The Group has integrated underperforming dealers in an effort to improve sales effectiveness. Mengniu has also improved the distribution and retail services model by adding branch company direct operations and a center business unit ("CBU"), while combining its regional business units ("RBU"). In respect of modern channels, retail and sales tasks of key accounts ("KA") were gradually carried out by a team of professionals arranged by Mengniu, instead of by dealers, so as to gather first-hand market information and enhance control over sales channels.

Through refining its marketing model, Mengniu has achieved satisfactory results in developing the sales channels. Towards this end, the Group firstly stepped up management of key accounts through a multi-layered interactive model between itself and its key accounts. The KA team of the head office would communicate with the national traders, KA teams of key regions with the regional traders, and the CBU and RBU with the retail outlets via the dealers. The Group has consolidated resources and achieved lean management on sales network through operational procedures and standardised practices, extending from the establishment of strategic relations with retail customers up to the offering of Mengniu's products at each retail store. In this way, the Group attained systematic and precise management of the sales network. Additionally, Mengniu engaged Nielsen and TNS China, two authoritative consumer market research institutions, to jointly conduct a consumer survey on China's dairy products sector, the most extensive research effort of its kind. The research studied in depth the shopping process of dairy product, with a view to establish a demand-oriented sector-based sales model. Through such a model, the Group could work with retail partners to jointly promote sustainable development of the dairy industry, enhance service standards and offer consumers a safer and value-added spending experience. Vertically, Mengniu has made intensive efforts to extend its reach in rural areas, thus tapping the uncovered market in third and fourth-tier cities. Horizontally, the Group has expanded its channels by supporting the development of special channels and placing focus on the E-commerce business, so as to take an early-mover advantage of sales opportunities in the future.

Branding Strategy

Mengniu started to reap the benefits from a streamlined product portfolio by reducing the number of brands and organising them in groups each with a clear role to play for the growth and profitability of the Group. In executing that strategy, star brands and opportunity brands have posted growth well ahead of the average growth of Mengniu and the market.

The pursuit to increase return on media investment also meant that a significantly higher proportion of funds were allocated to digital media. One such campaign was the launch of the Annual Migration Campaign documenting selected travellers returning home and their happiness of reunion with family in the Chinese New Year, an ideal fit with the "Little Happiness Matters" theme under the Mengniu brand umbrella. The campaign attracted 18 million page views and more than 2 million participation engagements.

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Mengniu further boosted brand awareness and engagement by employing a diverse range of marketing activities that leverage traditional media and online platforms across the portfolio. The Group's highly creative advertising campaign earned "The Tiger Roar Award for Traditional Media in China: The Special Contribution Award for Advertisers 2012-2013" (中國經典傳播虎嘯獎：二零一二至二零一三年度廣告主特別貢獻獎).

Further to the Super Voice Girls (超級女聲) singing contest launched in 2005, Mengniu concluded another partnership agreement with Hunan Satellite Television for the title sponsorship of The X Factor (中國最強音) singing reality show. This collaboration has helped raise awareness of Mengniu's *Suan Suan Ru (酸酸乳)* and has also provided a highly positive association for the Mengniu brand in general. The show has enabled Mengniu to exude youthful and trendy touch in its brand image and has generated positive reaction from the market.

In addition to the music competition, Mengniu has conducted a nationwide marketing campaign, entitled "Enjoyable Visits to Green Mengniu" (綠色蒙牛，幸福暢遊). The campaign covered four categories, including pure milk, functional milk, breakfast milk and flavored milk, together with 39 products from its portfolio. By inviting consumers to visit Mengniu's plants, it forged closer ties with them and enhanced the credibility and reputation of its brand.

Availing itself of the opportunity to support World Sleep Day and World Intestinal Health Day, Mengniu has utilised above-the-line and below-the-line resources, and the Group has launched campaigns for *Champion (冠益乳)*, a leading brand among high-end yogurt products, highlighted by "Strengthen Your Immunity by Starting with Champion" (益起加免) and "Protect the Immunity" (拯救免疫力). The campaigns were designed to arouse consumers' awareness of their immune systems by educating them about the importance of healthy dietary habits as well as spurring their demand.

Youyi C (優益C) is another fast-growing brand offering consumers a pro-biotic beverage for healthy digestion and great taste. The highly interactive campaign engaged consumers in various ways and was a good example of a dialogue with the target consumer that used a number of touch points to create awareness and product trials. Furthermore, the campaign helped promote a healthy lifestyle, thus reinforcing Mengniu's healthy image. The campaign was well-received by consumers and has become a successful marketing case study for industry peers.

Management System

Since the end of 2012, through the support from SAP, the world's leading provider of enterprise management software solutions and IBM, the world's most competent software implementation services provider, Mengniu significantly enhanced its information systems management, thereby strengthening its corporate competitiveness. SAP-constructed projects included Enterprise Resource Planning (ERP) System, Advanced Planning Optimisation (APO) System, Dealer Management System (DMS), Customer Relationship Management (CRM) System, Sales Force Automation (SFA) System, Transportation Management System (TMS) and Business Intelligence (BI) System. Through system integration and information sharing, Mengniu took a great step forward to map out its strategic targets by reinforcing its six core capabilities, stretching from market-driven brand management, channel management (dealer management), streamlining operations, production and sales collaboration, quality management, as well as financial management. As a result, Mengniu has effectively enhanced its operational efficiency and reduced management costs.

Financial Review

Revenue

During the period, the accelerated pace of urbanisation and the increase in per capita income had favoured the upgrade in consumption pattern. Against this backdrop, the dairy industry attained steady growth. Mengniu is committed to making further internal structural adjustments, perfecting its quality control system, extending its sales network and optimising its product portfolio, with a view to reinforcing its brand credibility and boosting customer loyalty by various means. For the six months ended 30 June 2013, revenue of the Group grew by 13.3% year-on-year to RMB20,668.0 million (2012: RMB18,243.8 million). The products with a greater revenue contribution were *Pure Milk (純牛奶)*, *Milk Deluxe (特侖蘇)* and *Suan Suan Ru (酸酸乳)*, while *Milk Deluxe*, *Future Star (未來星)*, *Fruit Milk Drink (真果粒)* and *Champion (冠益乳)* achieved scale of sales and rapid growth, and recorded double-digit growth rates.

Gross Profit

For greater assurance of the safety of milk sources and higher quality of products, the Group maintained its focus on enhancing the proportion of milk sources provided by ranches and scaled farms, while allocating more resources to retain additional quality inspection staff and deploy more inspection equipment, which led to rising costs of raw milk and quality inspection. Nevertheless, the Group has been proactively grasping the latest trends of market development. Efforts were made to adjust product structure and develop high-margin products. As a result, the gross profit of the Group for the six months ended 30 June 2013 increased to RMB5,519.2 million (2012: RMB4,643.6 million), while gross profit margin reached 26.7%, representing an increase of 1.2 percentage points as compared with the same period last year.

Operating Expenses

In the first half of 2013, the Group actively modified its strategies on expenditures in response to market needs. Operating expenses for the period rose to RMB4,754.2 million (2012: RMB3,880.1 million), among which the increase in sales staff costs was mainly attributed to the expansion of the sales network and a greater investment in sales channels. During the period, the selling and distribution expenses of the Group increased by 19.3% to RMB3,807.0 million (2012: RMB3,191.8 million), and its percentage to the Group's revenue increased to 18.4% (2012: 17.5%). Meanwhile, the Group continued to optimise its brand portfolio. Through a more reasonable and efficient use of sales resources, the advertising and promotion expenses for the period rose by 7.7% to RMB1,350.9 million (2012: RMB1,254.3 million), and its percentage to the Group's revenue decreased to 6.5% (2012: 6.9%). The administrative and other operating expenses increased by 37.6% to RMB947.2 million (2012: RMB688.3 million), and its percentage to the Group's revenue increased to 4.6% (2012: 3.8%), mainly as a result of the rise in salary of administrative staff, the increase in quality inspection cost and the agency fees incurred in relation to mergers and acquisitions.

Profit from Operating Activities and Net Profit

Even though the rise in revenue and gross profit was partially offset by the increase in cost and operating expenses, the Group's earnings before interest, taxes, depreciation and amortisation (EBITDA) during the first half of 2013 increased to RMB1,517.4 million (2012: RMB1,287.7 million). The EBITDA margin grew to 7.3% (2012: 7.1%).

Profit attributable to owners of the Company amounted to RMB749.5 million (2012: RMB644.7 million), representing a growth of 16.3% as compared with the same period last year. Basic earnings per share amounted to RMB0.419 (2012: RMB0.365), a year-on-year increase of 14.8%.

Capital Expenditure

For the six months ended 30 June 2013, the total capital expenditure (CAPEX) of the Group amounted to RMB3,715.4 million (2012: RMB946.9 million), a 292.4% increase as compared with the same period last year. The CAPEX for the period was mainly used in: construction of production plants and procurement of equipment amounting to RMB839.5 million; purchase of biological assets amounting to RMB124.1 million and acquisition project expenses amounting to RMB2,751.8 million. The Group has adopted a prudent policy in its CAPEX so as to lay a solid foundation for the development of the Group.

Working Capital, Financial Resources and Capital Structure

For the six months ended 30 June 2013, the Group's net cash inflow from operating activities amounted to RMB2,331.6 million, an increase from RMB1,156.5 million in the corresponding period of 2012. The increase was primarily attributable to the enhanced management of customers' lines of credit given higher revenue and profit of the Group.

As of 30 June 2013, the Group's net cash (cash and bank balances net of total bank loans) decreased to RMB3,412.4 million (31 December 2012: RMB5,178.3 million). The decrease was primarily attributable to the Group's acquisition of an approximately 26.92% shareholding interest in Modern Dairy. On 13 August 2013, valid acceptances of 89.82% of Yashili's shares have been received, of which 38.28% opted for the cash option of the general offer, and 51.54% the cash and share option. The total cash consideration amounted to approximately RMB8.1 billion, which will be settled by the Group by way of loans. The related loans are sufficient to settle the required payment.

As of 30 June 2013, the outstanding bank loans of the Group surged to RMB3,976.7 million (31 December 2012: RMB573.8 million), of which, bank loans of RMB814.9 million (31 December 2012: RMB93.4 million) were fixed interest-bearing loans.

The total equity of the Group was RMB14,344.5 million as of 30 June 2013 (31 December 2012: RMB13,121.1 million), and the debt-to-equity ratio (total bank loans over total equity) was 27.7% (31 December 2012: 4.4%).

The Group's finance costs amounted to RMB33.71 million (2012: RMB10.58 million), accounting for approximately 0.2% of the Group's revenue (2012: 0.1%).

Products

The Group has actively adjusted its product strategies and optimised its product portfolio based on attentive monitoring and analysis of the market situation. First of all, Mengniu has continued to develop mid to high-end dairy products, thereby increasing the overall profitability of the Group. In addition, Mengniu has consolidated its brands. Certain best-seller sub-brands have been extended to other product categories, thus concentrating resources on building brands with competitive advantages. Mengniu has also forged stronger strategic cooperation with its leading international counterparts, in order to enhance its R&D capabilities and advance its products to the forefront of the market.

Mengniu's businesses mainly comprise liquid milk, ice cream and other dairy products. The performance during the period is as follows:

<table>
<tr><th>Product category</th><th>Financial performance</th><th>Highlights</th><th>Key products</th></tr>
<tr><td>Liquid milk</td><td colspan="3">Revenue amounted to RMB18,262.5 million (2012: RMB15,963.3 million), accounting for 88.3% of the total revenue (2012: 87.5%)</td></tr>
<tr><td>UHT milk</td><td>Revenue amounted to RMB10,940.8 million (2012: RMB9,637.2 million), accounting for 59.9% (2012: 60.4%) of the liquid milk segment revenue</td><td>– A packaging upgrade on Breakfast Milk and introduction of Red Bean (紅穀早餐奶) and Black Bean Cereal Breakfast Milk (黑穀早餐奶). The new products targeted students and young white-collar workers who appreciate high nutritional value and mouthfeel of food and were well-received by the market

– Future Star (未來星) centered on Future Star Milk (未來星兒童成長牛奶) and developed a full set of derived products: Miao Miao Milk (妙妙兒童乳飲料), Kid Yogurt (兒童成長酸牛奶), and Kid Cheese (兒童成長乳酪). Future Star was unrivalled in children's milk products, with continuously expanding market share and above average market growth

– Cooperation with Arla Foods to introduce organic whole milk, low-fat milk and fat-free milk

– Garnered "Gold Award of Dairy Product in the 7th BioFach China" for Milk Deluxe (特侖蘇) at the 7th BioFach China, the largest organic food trade fair in Asia</td><td>Pure Milk
Milk Deluxe
Future Star Kid Milk
Awakening Youth Milk Latte
Arla Foods Organic Pure Milk</td></tr>
<tr><td>Milk beverages</td><td>Revenue amounted to RMB4,732.1 million (2012: RMB3,993.9 million), accounting for 25.9% (2012: 25%) of the liquid milk segment revenue</td><td>– The introduction of the popular Fruit Fiber Suan Suan Ru (果纖維酸酸乳)

– Integration of cartoon elements into the packaging of Miao Miao Milk (妙妙奶), with huge success in attracting kids' attention and stimulating sales</td><td>Suan Suan Ru
Fruit Milk Drink
Youyi C</td></tr>
</table>

Product category	Financial performance	Highlights	Key products
Yogurt	Revenue amounted to RMB2,589.6 million (2012: RMB2,332.2 million), accounting for 14.2% (2012: 14.6%) of the liquid milk segment revenue	– Launching a high-end product *Just UHT Yogurt (純甄常溫酸牛奶)*, produced with advanced Danish technology and fermented with quality lactobacillus to realise preservation of yogurt at room temperature. It is a product from a quality milk source in a simple and pure formula without additives, artificial color or preservatives	*Champion* *Just Yogurt* *Future Star Kid Yogurt* *Junlebao*
Ice cream	Revenue amounted to RMB1,954.4 million (2012: RMB2,158.3 million), accounting for 9.5% (2012: 11.8%) of the Group's total revenue	– A packaging upgrade of *Deluxe (蒂蘭聖雪)* and launch of mid to high-end *Deluxe Vanilla Ice-cream Sandwich (蘭聖雪三明治香草口味冰淇淋)*, the first ice-cream sandwich product created in the PRC, grabbing market share in the rapidly developing mid to high-end market – Launch of *Mood for Green Ice Crystal Cup (綠色心情微冰粒杯)*, which is made with pioneering "Ice Crystal" (微冰粒) technology in the PRC	*Deluxe* *Mood for Green* *Ice+*
Other dairy products	Revenue amounted to RMB451.0 million (2012: RMB122.3 million), accounting for 2.2% (2012: 0.7%) of the Group's total revenue	– Introduction of Arla Foods premium organic pediatric formula *Baby & Me*	*Baby & Me* *MENGNIU ARLA Kids Cheese Sticks*

Mengniu's products, including *Pure Milk, Low Fat High Calcium Milk (低脂高鈣牛奶)* and Milk Deluxe were sold in Hong Kong, Macau, Mongolia and Singapore. During the period, all segments recorded stable growth.

Production

With production capacity aligned with market potential and product strategies, Mengniu has set up 28 production bases across the country with a total production capacity of 7.59 million tonnes as of June 2013 (December 2012: 7.58 million tonnes).

Social Responsibility

In line with its strong belief of "growing with the communities with a thankful heart", Mengniu has been taking an active part in shouldering its social responsibility by arranging and participating in a number of charitable activities during the period. In this way it can actively contribute to the communities and to promote social harmony and sustainable development.

In response to the earthquake in Ya'an, Sichuan, Mengniu has fully cooperated with the local government in disaster relief by promptly delivering relief supplies to the disaster zone. Within three hours after the earthquake, it had dispatched 2,000 cartons of milk and 2,000 cartons of *Suan Suan Ru (酸酸乳)*, and subsequently donated RMB10 million in cash and 10,000 cartons of milk to the relief effort. Mengniu had also sent 44 volunteers to participate in relief work at the front line.

For two consecutive years, Mengniu has organised a large-scale charitable campaign "Looking for the Most Beautiful Teachers in Rural Areas," which was intended to raise awareness of rural education among society. Utilising Mengniu's charity blog at Weibo as the platform, this activity helped spread the message of love and happiness on the Internet. Through this powerful promotion platform, Mengniu attracted considerable attention from the society.

Mengniu has been conveying its warmth and energy not only in China, but also on the international stage. The Little Peace Messengers of Mengniu's "Future Stars Club" (未來星智領未來俱樂部) paid a visit to the United Nations' headquarter and expressed the goodwill greetings of the Chinese New Year and the children's wish for world peace.

Mengniu continued to make each and every effort for spreading happiness across the society, including the launch of a large-scale charitable activity "Carbon Reduction with Forest Wood" (碳匯林), a re-forestation project for planting seedlings on the Plantation Day. In another activity, Mengniu organised volunteers to donate 100,000 ml of blood in a month in memory of model worker Lei Feng. Mengniu also raised funds to help migrant workers return to their home during the Chinese New Year holiday, in order to bring their children's dreams to life. Mengniu's efforts have gained widespread recognition from various sectors across the society. During the period, Mengniu was honored as the "Enterprise with the Greatest Dedication to Charitable Activities in Shaanxi in 2012", and also garnered the "Award for Love and Care for People in Poverty in 2012" by the China Foundation for Poverty Alleviation.

Human Resources

On 30 June 2013, the Group had a total of approximately 32,000 employees in Mainland China and Hong Kong. Total staff costs for the period (excluding the emoluments of directors and senior executives) amounted to approximately RMB1,363.1 million (2012: RMB877.6 million).

The Group believes that the dedicated efforts of all of its employees are the very essence of Mengniu's rapid development and success in the future. Thus, the Board of Directors has adopted a restricted share award scheme on 26 March 2013. Through the grant of restricted shares to the core management team and outstanding employees at all levels, Mengniu has shared the fruits of its business development with its employees, directly linking the interests of employees with those of the Group and its shareholders. With this share award scheme, employees can create higher value for the Group, thus raising the sustainable development of the Group to new heights. This share award scheme spans over five years. No more than 5% of the shares in the issued share capital of the Company are to be purchased for the purpose of this scheme. In each year during the period of the plan, approximately 3,000 outstanding employees are to be selected and granted restricted shares on the basis of fair, impartial, open and transparent assessment.

Outlook

In the first half of 2013, the Chinese government has introduced a number of policies to rectify the dairy industry, including the increase in the concentration of the domestic dairy industry through encouragement of mergers and acquisitions, the rectification of production licenses and examination of record filing of raw materials of formula, as well as anti-monopoly investigation on imported products. This series of measures should accelerate industry consolidation, in which more than one-third of the small players in the market are expected to be eliminated from the milk formula industry. This process is conducive to the long-term healthy development of the industry, and also gives rise to enormous opportunities for leading enterprises such as Mengniu. According to management consulting firm McKinsey, the dairy products market in the PRC is expected to reach a size of RMB350 billion in the coming five years, with a compound annual growth rate of up to 12%. The dairy industry in the PRC provides immense room for development.

As an industry leader, Mengniu will seize the market opportunities and take full advantage of the synergies resulting from the cooperation with Arla Foods, Danone Group and Yashili, with a vision to further expand Mengniu's yogurt and milk formula businesses. The Group will work intensively to advance in three directions, which are achieving organic growth, opening up new sales channels and developing imported products. Moving forward, Mengniu will accelerate the development of high potential milk formula business and chilled dairy business by building on the innovative technology and abundant experience of its strategic partners, while striving to strengthen its liquid milk business. With the ongoing rise in China's per capita disposable income, the consumption trend is heading towards the high-end. Mengniu will capture this market development trend by raising the proportion of its mid to high-end products and offering a wide range of innovative products that satisfy consumers' tastes through product differentiation.

In connection with the enhancement of its internal system, Mengniu will continue to optimise the management over quality and safety. The Group will also strengthen efforts to build milk sources, integrate sales channels and improve its information systems, so as to support its rapid development. In relation to the strategic cooperation with external parties, Mengniu will vigorously forge strong business connections with its strategic partners in an effort to create complementary advantages and synergies. Mengniu will extend its business into a more comprehensive industry chain vertically and a wider array of products horizontally, thereby reinforcing its top-notch leadership in the industry. Mengniu will dedicate every effort to fulfill its commitment to consumers, and strive to becoming a dairy enterprise that delivers products of the best quality and in the most professional and devoted manner in China, so as to turn Mengniu into a century-old enterprise.

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.

Throughout the period, 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 of the CG Code during the six months ended 30 June 2013, except that ten Directors (2 executive Directors, 5 non-executive Directors (including the Chairman) and 3 independent non-executive Directors) were unable to attend the annual general meeting of the Company held on 7 June 2013 due to unavoidable business engagements and other commitments outside of Hong Kong.

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 2013.

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 2013, except that the trustee of the Restricted Share Award Scheme, pursuant to the rules of the Scheme, purchased on the open market a total of 6,256,000 the Company's listed securities at a total consideration of about RMB131.8 million.

AUDIT COMMITTEE

The Audit Committee currently comprises four independent non-executive Directors, namely Mr. Wu Kwok Keung Andrew (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 2013.

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 2013 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 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 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, Mr. Finn S. Hansen and Ms. Liu Ding. The Independent Non-executive Directors are Mr. Jiao Shuge (alias Jiao Zhen), Mr. Julian Juul Wolhardt, Mr. Liu Fuchun, Mr. Zhang Xiaoya, Mr. Andrew Y. Yan and Mr. Wu Kwok Keung Andrew.

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 and Executive Director

Hong Kong, 28 August 2013