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Daqing Dairy Holdings Limited
大慶乳業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 01007)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

Financial Highlights

- Our revenue for the six months ended 30 June 2011 amounted to RMB618.9 million representing an increase of RMB245.0 million or 65.5% from revenue of RMB373.9 million for the six months ended 30 June 2010.

- Our gross profit for the six months ended 30 June 2011 amounted to RMB343.0 million, representing an increase of RMB152.6 million or 80.1% from gross profit of RMB190.4 million for the six months ended 30 June 2010. Our gross profit margin increased from 50.9% for the six months ended 30 June 2010 to 55.4% for the six months ended 30 June 2011.

- Our profit attributable to shareholders for the six months ended 30 June 2011 amounted to RMB142.6 million representing an increase of RMB34.2 million or 31.5% from profit attributable to shareholders for the six months ended 30 June 2010 of RMB108.4 million.

The board of directors (the "Directors") (the "Board") of Daqing Dairy Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011 together with the audited comparative figures for the corresponding period in 2010 as follows:

Unaudited Condensed Consolidated Statement of Comprehensive Income

	Notes	**Six months ended 30 June 2011 (Unaudited)** ***RMB'000***	Six months ended 30 June 2010 (Audited) *RMB'000*
Revenue	*5*	**618,897**	373,867
Cost of sales		**(275,861)**	(183,494)
Gross profit		**343,036**	190,373
Other gains and losses	*6*	**2,394**	62
Selling and distribution expenses	*7*	**(110,752)**	(20,297)
Administration expenses	*8*	**(29,289)**	(12,943)
Finance costs	*9*	**(2,685)**	(7,856)
Profit before taxation	*10*	**202,704**	149,339
Income tax expenses	*11*	**(60,134)**	(40,964)
Total comprehensive income representing income attributable to shareholders		**142,570**	108,375
Earnings per share – Basic *(RMB)*	*13*	**0.141**	0.152
– Diluted *(RMB)*		**0.141**	N/A

Unaudited Condensed Consolidated Statement of Financial Position

	Notes	**As at 30 June 2011 (Unaudited)** ***RMB'000***	As at 31 December 2010 (Audited) *RMB'000*
Non–current assets			
Property, plant and equipment		**724,535**	526,894
Prepaid lease payments		**38,124**	38,451
Intangible assets		**10,775**	11,535
Deposits paid		**426,057**	–
Deferred tax assets		**10,971**	3,441
		1,210,462	580,321
Current assets			
Inventories		**54,742**	20,219
Trade and other receivables	*14*	**176,265**	15,711
Prepaid lease payments		**847**	847
Cash and bank balances		**550,118**	1,265,224
		781,972	1,302,001
Current liabilities			
Trade and other liabilities	*15*	**96,919**	111,488
Income tax liabilities		**36,668**	56,868
		133,587	168,356
Net current assets		**648,385**	1,133,645
Total assets less current liabilities		**1,858,847**	1,713,966
Capital and reserves			
Share capital		**9**	9
Reserves		**1,736,314**	1,590,997
		1,736,323	1,591,006
Non–current liabilities			
Deferred tax liabilities		**22,524**	22,960
Long term bank borrowings		**100,000**	100,000
		122,524	122,960
		1,858,847	1,713,966

1. Corporation information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 15 October 2009. The authorised share capital of the Company was HK$380,000 divided into 38,000,000,000 shares of HK$0.00001 each. The registered office of the Company is Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111 Cayman Islands. The principal place of business of the Company in Hong Kong is 35th Floor, Bank of China Tower, 1 Garden Road, Central. The ordinary shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 October 2010.

The Company acts as an investment holding company of the Group. The Group is principally engaged in the manufacture, marketing and sales of milk formula products in the Peoples' Republic of China (the "PRC").

2. Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Rules Governing the Listing of the Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

3. Changes in accounting policy and disclosures

The condensed consolidated financial statements have been prepared under the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

In addition, the Group applied the following policy for share-based payment transaction:

Share-based payment transactions

The fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

In the current interim period, the Group has also applied, for the first time, the following new or revised standards, amendments and interpretations (the "New or Revised IFRSs") issued by the IASB, which are effective for the Group's financial year beginning on 1 January 2011:

IFRSs (Amendments)	Improvements to IFRSs 2010
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
IAS 24 (Revised)	Related Party Disclosures
IAS 32 (Amendments)	Classification of Rights Issues
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilitieswith Equity Instruments

The application of the above New or Revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early adopted new or revised standards, amendments and interpretations that have been issued but are not yet effective. The following new or revised standards and amendments have been issued after the date of the consolidated financial statements for the year ended 31 December 2010 were authorized for issuance and are not yet effective:

IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[2]
IAS 19 (Revised 2011)	Employee Benefits[1]
IAS 27 (Revised 2011)	Separate Financial Statements[1]
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[1]

[1] Effective for annual periods beginning on or after 1 January 2013
[2] Effective for annual periods beginning on or after 1 July 2012

The Directors anticipate that the application of these new or revised standards will have no material impact on the results and the financial position of the Group.

4. Segment reporting

The Group operates and manages its business as a single segment that includes primarily the manufacture and sales of milk powder products and ice-cream products. The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews revenue analysis by major products and the profit of the Group for the period when making decisions about allocating resources and assessing performance of the Group. As no other discrete financial information is available for assessment of performance of different products, no segment information is presented.

5. Revenue

Our revenue consists of sales from our customers which comprises of supermarkets and retail chain stores in the vicinity of Daqing City as well as distributors in other parts of the PRC. Revenue is recognised when the risk and rewards of ownership of our products passes to our customers.

A breakdown of our revenue is as follows:

	Six months ended 30 June 2011 (Unaudited) ***RMB'000***	Six months ended 30 June 2010 (Audited) *RMB'000*
Whole milk powder products	**23,313**	26,100
Formula milk powder products		
– Daqing series	**116,184**	60,402
– Emilon series	**466,791**	246,404
– Shi Jia series	**1,697**	28,702
Ice-cream products	**10,912**	12,259
Total	**618,897**	373,867

6. Other gains and losses

	Six months ended 30 June 2011 (Unaudited) ***RMB'000***	Six months ended 30 June 2010 (Audited) *RMB'000*
Interest income	**2,471**	232
Foreign exchange gains, net	**11**	22
Loss on disposals of property plant and equipment	**(88)**	(192)
Total	**2,394**	62

7. Selling and distribution expenses

	Six months ended 30 June 2011 (Unaudited) ***RMB'000***	Six months ended 30 June 2010 (Audited) *RMB'000*
Staff and welfare cost	**5,223**	1,424
Freight and insurance	**4,776**	2,684
Advertising and promotion	**96,838**	15,235
Others	**3,915**	954
Total	**110,752**	20,297

8. Administration expenses

	Six months ended 30 June 2011 (Unaudited) ***RMB'000***	Six months ended 30 June 2010 (Audited) *RMB'000*
Staff and welfare cost	**9,783**	2,761
Depreciation	**2,518**	2,146
Travelling and entertainment	**1,612**	476
Printing and consumables	**1,574**	222
Utilities and office maintenance	**1,012**	410
Amortisation of trademark	**760**	760
Professional fees	**8,106**	229
Others	**3,924**	5,939
Total	**29,289**	12,943

9. Finance costs

	Six months ended 30 June 2011 (Unaudited) ***RMB'000***	Six months ended 30 June 2010 (Audited) *RMB'000*
Interest on bank borrowings wholly repayable within five years	**2,685**	3,115
Interest on loans from PRE-IPO investors*	**–**	4,741
Total	**2,685**	7,856

** Detail of the PRE-IPO investors are disclosed in Prospectus dated 15 October 2010.*

10. Profit before taxation

	Six months ended 30 June 2011 (Unaudited) ***RMB'000***	Six months ended 30 June 2010 (Audited) *RMB'000*
Profit before taxation has been arrived at after charging:		
Staff cost including Directors:		
– Salaries and wages	**12,411**	4,708
– Retirement benefit scheme contribution	**918**	343
– Share–based payments	**2,747**	–
Depreciation and amortisation		
– Property, plant and equipment	**13,834**	12,728
– Intangible assets	**760**	760
Release of prepaid lease payments	**327**	327
Cost of inventories recognised as an expenses	**275,861**	183,494
Research and development expenses	**119**	58
Expenditure relating to the Company's proposed issuance of the US$ settled RMB senior guaranteed notes at the Singapore Exchange Trading Limited in March 2011	**5,936**	–

11. Income tax expenses

No provision for Hong Kong Profits Tax and Singapore Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong and Singapore respectively for the period ended 30 June 2011. Our operating subsidiaries in the PRC are taxed at the statutory tax rate of 25%. A breakdown of our tax expenses is as follows:

	Six months ended 30 June 2011 (Unaudited) ***RMB'000***	Six months ended 30 June 2010 (Audited) *RMB'000*
Current PRC enterprise tax	**68,100**	41,441
Deferred taxation	**(7,966)**	(477)
	60,134	40,964

12. Dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

13. Earnings per share

The calculation of the basic earnings per share is based on the profit for the six months ended 30 June 2011 attributable to shareholders of the Company and the weighted average number of ordinary shares of 1,010,500,000 (six months ended 30 June 2010: 714,807,689) in issue during the six months ended 30 June 2011.

	Six months ended 30 June 2011 (Unaudited) ***RMB'000***	Six months ended 30 June 2010 (Audited) *RMB'000*
Profit attributable to shareholders	**142,570**	108,375
	Shares	Shares
Weighted average number of shares during the reporting period	**1,010,500,000**	714,807,689

The calculation of diluted earnings per share for the six months ended 30 June 2011 does not assume the exercise of the Company's share options as the exercise prices of the share options were higher than the average market price of the Company's shares for the six months ended 30 June 2011. There were no potential dilutive shares in issue during the six months ended 30 June 2010 and therefore, no diluted earnings per share amounts have been presented.

14. Trade receivables

We generate trade receivables from sales to supermarkets and retain chain stores within the vicinity of Daqing municipality. These customers are typically granted a credit period of 30 days. Our sales to distributors are on a pre-paid basis and as such we are not exposure to any credit risk arising from our distributors. Our sales to distributors comprise approximately 89.7% of total revenue for the six months ended 30 June 2011 (2010: 85.3%). No interest is charged on trade receivables.

An aged analysis of the trade receivables of the Group as at the end of the reporting period, based on the invoice date is as follows:

	As at 30 June 2011 (Unaudited) ***RMB'000***	As at 31 December 2010 (Audited) *RMB'000*
Within 30 days	**51,003**	10,525
Over 30 days but within one year	**–**	–
Over one year	**–**	–
	51,003	10,525

Save as disclosed above, the increase in the trade receivables is mainly due to a one–time 60 day credit period we gave to our distributors who were affected by the restocking exercise due to the change in product packaging arising from receipt of the renewed production licenses. The carrying values of the trade receivables approximate their fair value.

15. Trade payables

The Group's trade payables principally comprise amounts outstanding for trade purchases. Payment terms with suppliers are on an average credit period of 30 days from the time when the goods are received from suppliers. Trade payables are interest free.

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

	As at 30 June 2011 (Unaudited)	As at 30 December 2010 (Audited)
	RMB'000	*RMB'000*
Within 30 days	**10,267**	5,955
Over 30 days but within one year	**–**	–
Over one year	**–**	–
	10,267	5,955

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Growth in distribution network

The Group's sales expansion mainly comes from the growth of its distribution network. The number of distributors grew from 120 direct distributors for the six months ended 30 June 2010 to 199 direct distributors for the six months ended 30 June 2011. Revenue contributed by distributors increased from 85.3% for the six months ended 30 June 2010 to 89.7% for the six months ended 30 June 2011.

During the six months ended 30 June 2011, the Group had distribution presence in 22 (six months ended 30 June 2010: 21) provinces and one municipality in the PRC. During the period under review, we expanded our presence into Hainan province. Our distributors are typically responsible for sales in the city in which they are located in and their immediate neighbouring cities. As such, the growth in our distribution network comes from securing committed distributors in more cities across the PRC. The revenue growth remains broad based, with the top five distributors accounting for approximately 4.8% of total revenue for the six months ended 30 June 2011 (six months ended 30 June 2010: 9.1%).

A geographical analysis of the number of distributors and revenue derived from each region is as follows:

	Six months ended 30 June 2011			Six months ended 30 June 2010		
		Revenue			Revenue	
		(Unaudited)			(Audited)	
Regions	**No.**	**RMB'000**	**%**	No.	RMB'000	%
North eastern	**68**	**228,395**	**41.2%**	41	138,191	43.3%
Central	**53**	**125,016**	**22.5%**	32	74,778	23.5%
South eastern	**51**	**140,075**	**25.2%**	34	76,704	24.1%
South western	**27**	**61,739**	**11.1%**	13	29,058	9.1%
	199	**555,225**	**100.0%**	120	318,731	100.0%

During the period under review, the Group continued to expand the number of distributors in its traditional stronghold in the north eastern region of the PRC as well as in the other regions. Growth in revenue and distributor presence remains broad based.

Vertical integration upstream

As part of the overall strategy to contain costs, reclaim margins in the raw milk production currently enjoyed by our suppliers and to ensure a safe and reliable supply of raw milk, the Group has commenced the development of dairy farms as disclosed in the Prospectus dated 15 October 2010 (the "Prospectus").

Our wholly-owned subsidiary, Wuchang Benniu Dairy Co., Ltd is tasked with the turn key development of a dairy farm with a planned capacity of 10,000 heads of dairy cows. The physical construction of the farm is progressing well and on track for completion by the second quarter of 2012. Given certain design changes due to the soft terrain encountered in the construction area and other design refinements, increase in prices of construction materials and prices of dairy cows, the total budget for the development have been revised upwards from RMB350 million to approximately RMB500 million. As at 30 June 2011, payments for the construction of the farm, farm equipment and dairy cows amounting to approximately RMB400.5 million in aggregate have been placed with the relevant suppliers.

The Company announced the 2nd phrase vertical integration plan during the aborted bond issue exercise on 29 March 2011. To further increase the reliability and safety of the raw milk supplied to the Group, the Group planned to acquire approximately 25 milk stations and the right to lease the surrounding land near these stations for development into small scale farms with design capacity of up to 700 dairy cows each. As the bond issue was cancelled due to unfavourable market conditions, the Group will implement the 2nd phrase vertical integration plan in two stages (1) to acquire the land leases, operating licences, buildings, milking, and storage and transportation equipment of designated milk stations and (2) to develop small scale farms adjacent to the milk stations which will be financed by our own operating cash flows.

As part of the implementation of stage 1, the Group had acquired the land leases, operating licences, buildings, milking, storage, cleaning and transportation equipment of 27 privately operated milking stations located in Datong District (大同區, 大慶市) and Anda District (安達區, 綏化市) and a dairy farm which has a design capacity for 3,000 heads of dairy cows for an aggregate consideration of RMB232.2 million in 16 separate transactions. These milk stations currently supply raw milk to our competitors. The control of these milk stations will allow us to control the raw milk resources of the surrounding areas.

These milking stations and the dairy farm are located around our Daqing Production Facility and will service the additional raw milk requirements of our Daqing Production Plant as Phase two attains optimum utilisation rates. The acquisition of these milk stations will also achieve cost savings from raw milk purchase prices by approximately 10% and will supply approximately 19% of Daqing Production Plant's requirements or approximately 12% of our Group's requirement based on 85% utilisation in our Daqing and Changqing Production Facilities. The Group will continue to acquire more milk stations and develop small scale farms surrounding these milk stations as and when the opportunity arise and funding permits.

Brand performance

The performance of the various brands of milk powder sold by the Group are analysed as follows:

	Six months ended 30 June 2011				Six months ended 30 June 2010			
	Revenue (Unaudited)	**%**	**ASP**	**GM%**	Revenue (Audited)	%	ASP	GM%
	RMB'000		**RMB/kg**	**%**	RMB'000		RMB/kg	%
Whole milk powder	**23,313**	**3.8%**	**31.7**	**16.0%**	26,100	7.0%	28.6	12.8%
Baby formula								
– Daqing	**116,184**	**18.8%**	**43.3**	**41.1%**	60,401	16.1%	32.1	31.7%
– Emilon	**466,791**	**75.4%**	**82.6**	**61.6%**	246,404	65.9%	71.9	58.9%
– Shi Jia	**1,697**	**0.3%**	**136.3**	**68.7%**	28,703	7.7%	150.7	71.2%
Total milk powder	**607,985**	**98.3%**	**66.9**	**56.0%**	361,608	96.7%	56.4	52.0%

Whole milk powder

The whole milk powder business lines comprise mainly industrial whole milk powder in 25kg packaging that we sell to other dairy producers as well as sweeten whole milk powder for general purpose use that we sell to consumers through our distribution network and retail chain stores. Revenues from whole milk powder declined from RMB26.1 million for the six months ended 30 June 2010 to RMB23.3 million for the six months ended 30 June 2011 and its contribution to overall revenue fall from 7.0% for the six months ended 30 June 2010 to 3.8% for the six months ended 30 June 2011. This product segment commands the lowest margins among all our offerings and we typically produce whole milk powder for sale only when we have excess capacity and raw milk supplies. The increase in average selling price ("ASP") from RMB28.6/kg for the six months ended 30 June 2010 to RMB31.7/kg for the six months ended 30 June 2011 is a result of the upward adjustment of selling prices at the start of the year and resulted in an overall improvement in the gross margins ("GM") from 12.8% for the six months ended 30 June 2010 to 16.0% for the six months ended 30 June 2011.

Baby formula – Daqing

Daqing series is targeted at the lower middle income tier consumers and is the most price sensitive brand in our baby formula line up. The revenue from the sales of Daqing series increased from RMB60.4 million for the six months ended 30 June 2010 to RMB116.2 million for the six months ended 30 June 2011. During the period under review, ASP increased from RMB32.1/kg for the six months ended 30 June 2010 to RMB43.3/kg for the six months ended 30 June 2011 as a result of upward adjustment of selling prices at the start of the year and has resulted in raising the GM from 31.7% for the six months ended 30 June 2010 to 41.1% for the six months ended 30 June 2011. The increase in the sales volume despite the adjustment in prices is evident of the strength of our Daqing Brand equity in 3rd tier and below villages and counties.

Baby formula – Emilon

The Emilon brand of formula comprises three series of baby formula milk with different price points targeted at different consumer groups as well as different geographical markets with different levels of disposable income. Together these series give the Group the depth in its product offering, enabling us to compete more effectively against smaller regional competitors.

Revenue from sales of Emilon increased from RMB246.4 million for the six months ended 30 June 2010 to RMB466.8 million for the six months ended 30 June 2011. The increase in revenue is driven by both increases in ASP (from an average of RMB71.9 per kg to RMB82.6 per kg) arising from an upward price adjustment that we implemented at the start of year as well as increase in sales volumes. The increase in sales volumes increase from 3,426.8 tonnes for the six months ended 30 June 2010 to 5,651.1 tonnes for the six months ended 30 June 2011 is mainly due to the increase in coverage of our distribution network and the effects of increased television advertising in target areas.

Baby formula – Shi Jia

The revenue from Shi Jia declined from RMB28.7 million for the six months ended 30 June 2010 to RMB1.7 million for the six months ended 30 June 2011. The decline is mainly due to reallocation of production resources to focus to producing Emilon products due to the higher than expected demand and a delay in achieving operational status for our Chang Qing production facility due to the requirements to re–submit our production licence application to meet the new requirements announced on 26 November 2010. Management is currently evaluating sales strategy of the Shi Jia brand and will make further announcements when appropriate.

FINANCIAL REVIEW

Our six months ended 30 June 2011 compared to our six months ended 30 June 2010

Revenue

Our revenue increased by 65.5% from RMB373.9 million for six months ended 30 June 2010 to RMB618.9 million for six months ended 30 June 2011. The increase in our revenue for the period was driven by a strong growth in our milk formula products by RMB249.2 million in aggregate, offset by declines in our whole milk powder products and ancillary ice cream business by RMB2.8 million and RMB1.3 million, respectively.

The growth in revenue for six months ended 30 June 2011 is mainly due to the growth of our distribution network from 120 direct distributors for the six months ended 30 June 2010 to 199 direct distributors for the six months ended 30 June 2011, the increase in selling prices to our distributors and effects of advertising on China Central Television network ("CCTV") as well as various regional satellite television stations.

The increase in revenue demonstrates the success of our product strategy as well as validated the effectiveness of our distribution model and brand building efforts.

Cost of sales

Our cost of sales increased by RMB92.4 million or 50.4% from RMB183.5 million for six months ended 30 June 2010 to RMB275.9 million for six months ended 30 June 2011. The increase in our cost of sales for the six months ended 30 June 2011 was lower than the increase in sales for the corresponding period last year. This was mainly due to the change in product mix in favour of higher margin milk formula products such as our Emilon series, which resulted in a lower cost of sales incurred per dollar of sales.

Gross profits

Our gross profits increased by RMB152.6 million or 80.1% from RMB190.4 million for six months ended 30 June 2010 to RMB343.0 million for six months ended 30 June 2011. Our gross profit margins increased from 50.9% for the six months ended 30 June 2010 to 55.4% for the six months ended 30 June 2011 primarily due to increase in ASP of our products as a result of an upward revision in our selling prices, improvement in product mix in favour of higher margin products like our Emilon series.

Other gains and losses

Our other gains increased from RMB62,000 for the six months ended 30 June 2010 to RMB2.4 million for the six months ended 30 June 2011 mainly due to higher interest income arising from higher average bank balances during the reporting period.

Selling and distribution expenses

Our selling and distribution expenses increased by RMB90.5 million or 445.8% from RMB20.3 million for the six months ended 30 June 2010 to RMB110.8 million for the six months ended 30 June 2011. The increase was mainly due to the increase in advertising and promotional expenses by RMB81.6 million as a result of a branding and advertising campaign on CCTV and other regional satellite television stations to increase brand awareness and to attract more potential distributors to our network. As our distribution network grow in coverage, we also began to tailor an advertising to cater to our end customers.

During the financial period under review, the Group was required to change all its product packaging to reflect the new production licence number issued to us on 26 March 2011. As such, our distributors and retailers conducted a promotional campaign to sell existing inventory in the channel. In conjunction with this one off exercise, we increase the air time exposures for our advertisements in all the major television stations.

In return for our distributors clearing the existing inventory, we give them a lower pricing for re-stocking as well as one time 60-day credit period for affected distributors. The total discounts given to our distributors for this change of packaging and its subsequent restocking exercise amounted to approximately RMB16.0 million.

In addition, our staff and welfare costs increased by RMB3.8 million as we increase head counts to cater to the expansion of our distribution network and freight and insurance cost by RMB2.1 million as a result of increased revenues.

Administrative expenses

Our administrative expenses increased by RMB16.4 million or 127.1% from RMB12.9 million for the six months ended 30 June 2010 to RMB29.3 million for the six months ended 30 June 2011. The increase was primarily due the higher staff costs, professional fees, travelling and entertainment expenses, printing and consumables as well as utilities and office maintenance. After the listing of the Company' s share on the Stock Exchange on 28 October 2010 (the "Listing"), we have adjusted the salaries of our Directors and senior management, increased head count in line with new offices set up in Hong Kong, Changqing production facilities and Benniu dairy farm. The increase in expenses such as printing and consumables as well as utilities and office maintenance is also due to the latter reason. The increase in professional fees is mainly due to increased compliance costs post listing in the form of audit expenses, compliance advisors fees, legal counsels etc.and also the fee of approximately RMB5.9 million in relation to the proposed issuance of US$ settled RMB senior guaranteed notes which had been postponed .

Finance costs

Our finance cost decreased by RMB5.2 million or 65.8% from RMB7.9 million for the six months ended 30 June 2010 to RMB2.7 million for the six months ended 30 June 2011. The decrease was mainly due to the repayment of the loan from PRE-IPO investors in November 2010 and consequently no interest is payable this reporting period. In addition, lower interest on bank borrowings had been recorded this reporting period due to lower average loan outstanding during this reporting period.

Income tax expense

Our income tax expense increased by RMB19.1 million or 46.6% from RMB41.0 million for six months ended 30 June 2010 to RMB60.1 million for six months ended 30 June 2011. This increase was primarily due to an increase in profit, as well as an increase in the effective tax rate from 27.4% for six months ended 30 June 2010 to 29.7% for six months ended 30 June 2011. This is due to the fact that expenses incurred in our offshore listed company, Changqing and Beniu subsidiary do not currently have any taxable profits to offset and there is no right of set off among different subsidiaries.

Profit for the period

Our profit for the period under review increased by 31.5% from RMB108.4 million for six months ended 30 June 2010 to RMB142.6 million for six months ended 30 June 2011, as a result of the factors discussed above. Our net profit margin declined from 29.0% for the six months ended 30 June 2010 to 23.0% for the six months ended 30 June 2011 due to increase in selling and distribution expenses and administration expenses as discussed above.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

There were no material investments and acquisitions and disposals of subsidiaries during the six months ended 30 June 2011.

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group intends to explore investment opportunities to commence the development of our second phase of our vertical integration plan that should see the Group achieve self–sufficiency in raw milk supplies. Save as disclosed in this announcement, we have not entered into any legally binding agreement or arrangement with respect to the upward integration opportunities mentioned above at the date of this announcement,. The Group will make appropriate announcements on its plans as and when such plans materialise.

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGE OF ASSETS

As at 30 June 2011, net assets of the Group amounted to approximately RMB1,736.3 million (31 December 2010: RMB1,591.0 million); current assets amounted to approximately RMB782.0 million (31 December 2010: RMB1,302.0 million), of which approximately RMB550.1 million (31 December 2010: RMB1,265.2 million) were cash and bank deposits.

The Group usually applies its cash flows generated internally to meet its operational needs. Following the fund raising of the global offering, the Group has sufficient financial resources and liquidity that are sufficient to meet its daily business operations and future development. A summary of our cash flows is as follows:

	Six months ended 30 June 2011 (Unaudited) ***RMB'000***	Six months ended 30 June 2010 (Audited) *RMB'000*
Cash (used in) / generated from operations	**(55,986)**	179,399
Cash (used in) / generated from activities	**(661,918)**	(5,083)
Cash generated from / (used in) financing activities	**2,798**	(42,928)
Total cash generated for the period	**(715,106)**	131,388
Cash at the beginning of the period	**1,265,224**	183,972
Cash at the end of the period	**550,118**	315,360

The Group's cash outflow for the period under review was RMB715.1 million, mainly due to the cash used in operating activities amounting to RMB56.0 million and the cash used in the Group's investing activities of approximately RMB661.9 million. Cash used in operations of RMB56.0 million was mainly due to operating cash generated of RMB35.0 million offset by taxes and interest paid in aggregate of RMB91.0 million. Investing cash outflow is mainly due to payments made in respect of our Benniu dairy farm as well as our acquisition of milk stations.

As at 30 June 2011, there are no pledges on any of its assets of the Group.

CAPITAL STRUCTURE

The Company's capital structure only comprises of ordinary shares. There have been no changes in the capital structure during the six months ended 30 June 2011.

GEARING RATIO

As at 30 June 2011, the Group's current liabilities amounted to approximately RMB133.6 million (31 December 2010: RMB168.4 million).

The net assets value per share of the Group was approximately RMB1.72 per share as at 30 June 2011 (31 December 2010: RMB2.04 per share). The net asset value per share was computed based on the number of shares in issue as at 30 June 2011 of 1,010,500,000 ordinary shares in issue throughout the period (31 December 2010: 781,507,977 weighted average number of shares).

The Group's current ratio as at 30 June 2011 was approximately 5.9 (31 December 2010: 7.7). The gearing ratio as at 30 June 2011 was approximately 5.0% (31 December 2010: 5.3%) which was mainly due to a long term bank loan of RMB100.0 million (31 December 2010: RMB100.0 million).

INTEREST AND FOREIGN EXCHANGE RISK

During the reporting period, the Group did not have debt obligations with floating interest rates (2010: Nil). Accordingly, the Group had no significant interest rate risk.

Substantially all of the Group's businesses are denominated in RMB, which is the Group's functional currency. As at 30 June 2011, the Group had bank balances of RMB0.1 million denominated in HK$ and RMB2.7 million denominated in US$.

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. The Group seeks to maintain strict control over its outstanding receivables and closely monitors the collection to minimise credit risk. As the Group's exposure spreads over a diversified portfolio of customers, there is no significant concentration of credit risk.

The carrying amounts of cash and cash equivalents, trade receivables, other receivables and other financial assets, represent the Group's maximum exposure to credit risk in relation to the Group's other financial assets.

CAPITAL COMMITMENTS

As at 30 June 2011, the Group had the following capital commitments:

	30 June 2011 (Unaudited) *RMB'000*	31 December 2010 (Audited) *RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment:		
– contracted for but not provided in the consolidated financial statements	**100,948**	11,189
– authorised for but not contracted for	**–**	298,580
Total	**100,948**	309,769

Capital commitments mainly relates to contracted amounts for our Benniu Dairy Farm.

CONTINGENT LIABILITIES

As at 30 June 2011, the Group had no significant contingent liabilities (31 December 2010: Nil).

USE OF PROCEEDS

As at 30 June 2011, the balance of the net proceeds of the fund raising by the Company in the global offering amounted to approximately RMB290.1 million were totally placed with reputable financial institutions for interest income.

The Group intends to use these net proceeds for the following purposes:

Use of proceeds	Allocated *RMB'000*	Utilisation *RMB'000*	Balance *RMB'000*
1) approximately 34.7% will be used for implementing our expansion plans on investments upstream in cattle farms and acquisitions of related production equipment and facilities;	308,841	(308,841)	–
2) approximately 25.5% will be used for reinforcing and expanding of our distribution network;	226,959	–	226,959
3) approximately 20.4% will be used for advertising,marketing and promotion of existing and new products;	181,567	(118,389)	63,178
4) approximately 9.2% for repayment of loan extended by the Pre–IPO Investors to our Company (which is referred to as the Second Loan in the sub–section headed "Investment in the Company prior to the Global Offering" in the section headed "History, Reorganisation and Group Structure" in the prospectus) and the interests accrued thereon	81,883	(81,883)	–
5) approximately 10.2% will be working capital and other corporate purposes	90,784	(90,784)	–
Total	890,034	(599,897)	290,137

EMPLOYEES

As at 30 June 2011, the Group employed 926 (30 June 2010: 501) employees. The increase in the number of employees was due to the expansion of the Group's business to cope with business promotion and increased headcount due to the commencement of operation of our Wuchang production facility as well as new headcount in our upstream business. The salary levels of employees are determined by their performance, qualifications, experience and contribution to the Group with reference to general market trend. The Company adopted the share option scheme to provide incentives and rewards to Directors and employees for their contributions to the Group.

The total employee expenses of the Group including Directors' remuneration charged to the consolidated statement of comprehensive income for the six months ended 30 June 2011 amounted to approximately RMB16.1 million (six months ended 30 June 2010: RMB5.1 million). The increase in total employee expenses was due to the increase in employees and salary increments adjusted in accordance with labour market trend.

PROSPECTS

Subqequent to the Melamine incident in 2008, the PRC government has introduced a number of regulations and measures which are aimed at controlling and improving food safety in the dairy products industry and for the purpose of regaining the confidence of consumers. In addition, the government have also introduced new production licensing requirements to drive consolidation within the dairy industry as well as introduced favourable incentives to encourage upstream integration among dairy producers. We believe these measures are favourable to the development of the industry in general and the Group in particular.

During the period under review, the Group had increased the selling prices of the products to offset the consequences brought by the increased in the cost of the raw materials in early 2011 as well as took several measures like the acquisition of the assets of various milk stations to lower production costs. This should help us mitigate the effects from inflationary pressures expected in 2011.

Our growth in 2011 will continued to be driven by the expansion of our distribution network via the selection and appointment of committed distributors in cities where we do not yet have a presence, with special emphasis on our key markets of 2nd tier, 3rd tier and below cities.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its listed shares during the six months ended 30 June 2011. Neither the Company, nor any of its subsidiaries purchased, sold or repurchased any of the Company's listed securities during the six months ended 30 June 2011.

COMPLIANCE OF MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTE D ISSUERS (THE "MODEL CODE")

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the Model Code throughout the reporting period.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied fully with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the reporting period.

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which was established with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules. The primary duties of the Audit Committee are to provide the Board with an independent review of the effectiveness of the financial reporting process, internal control and risk management of the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board. The Audit Committee comprises 3 independent non-executive Directors, namely, Ms Chan Wah Man Carman (Chairman), Mr Cheung Hok Fung Alexander, and Mr Zhang Zhou. The Company's and the Group's financial statements for the six months ended 30 June 2011 have been reviewed by the Audit Committee.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2011. The external auditor has reviewed the interim financial information for the six months ended 30 June 2011.

By the order of the Board
Daqing Dairy Holdings Limited
Zhao Chuan Wen
Chairman

Hong Kong, 18 August 2011

As at the date of this announcement, the executive directors of the Company are Mr Zhao Chuan Wen, Mr Zhao Yu, Mr Xia Yuan Jun, Mr Fu Chong and Mr Fong Pin Jan; and the independent non-executive directors of the Company are Mr Cheung Hok Fung Alexander, Ms Chan Wah Man Carman and Mr Zhang Zhou.