



蒙牛

China Mengniu Dairy Company Limited

(incorporated in the Cayman Islands with limited liability)

Stock Code: 2319



Interim Report 2007

Corporate Profile

China Mengniu Dairy Company Limited (Stock Code: 2319) and its subsidiaries (the "Group") manufacture and distribute quality dairy products in China, including Hong Kong and Macau. It is one of the leading dairy product manufacturers in China, with **MENGNIU** as its core brand. The Group's diverse products include liquid milk products, such as UHT milk, yogurt and milk beverages, ice cream and other dairy products such as milk powder. In June 2007, the Group operated 20 production bases with a combined annual production capacity of 4.71 million tons.



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr NIU Gensheng
Mr YANG Wenjun
Mr SUN Yubin

Non-executive Directors

Mr JIAO Shuge (alias JIAO Zhen)
Ms LU Jun
Mr Julian Juul WOLHARDT

Independent Non-executive Directors

Mr WANG Huaibao
Mr ZHANG Julin
Mr LI Jianxin

SENIOR MANAGEMENT

Mr YAO Tongshan
Mr BAI Jun
Mr LEI Yongsheng
Mr DENG Jiuqiang
Mr BAI Ying
Mr KWOK Wai Cheong, Chris
(Qualified Accountant & Company Secretary)

STOCK CODE

Hong Kong Stock Exchange 2319

INVESTOR RELATIONS CONTACT

Mr KWOK Wai Cheong, Chris
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18 Fenwick Street, Wanchai
Hong Kong
Email: mengniu_ir@mengniu.com.cn
Website: www.mengniuir.com

PLACE OF BUSINESS IN HONG KONG

Unit 1001, 10th Floor, Jubilee Centre
18 Fenwick Street, Wanchai
Hong Kong

REGISTERED OFFICE

M&C Corporate Service, P.O. Box 309 GT
Ugland House, South Church Street
George Town, Grand Cayman
Cayman Islands

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Ford Street
P.O. Box 705, George Town
Grand Cayman, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services
Limited
46th Floor, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

LEGAL ADVISORS

As to Hong Kong Law
Norton Rose Hong Kong

As to Cayman Islands Law
Maples and Calder Asia

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
Industrial Commercial Bank of China

AUDITORS

Ernst & Young

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

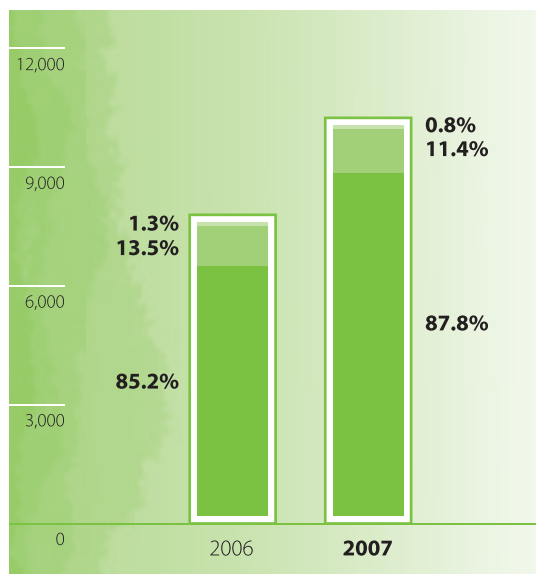
Financial Highlights

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

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

Revenue by Product Mix

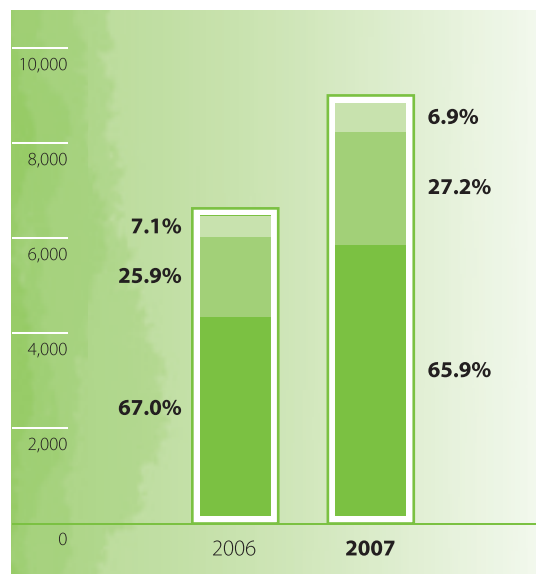
For the six months ended 30 June (RMB million)



■ Liquid Milk
 ■ Ice Cream
 ■ Other Dairy Products

Product Mix in Liquid Milk Segment

For the six months ended 30 June (RMB million)



■ UHT Milk
 ■ Milk Beverages
 ■ Yogurt

Management Discussion and Analysis

Financial Review

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

Operating Expenses

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

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

Profit from Operating Activities

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

Capital Structure, Liquidity and Financial Resources

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

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

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

Management Discussion and Analysis

Market Review

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

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

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

Business Review

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

Branding and Marketing

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

- An original spokesperson "Milk Man More More" (奶人多多) was created by the Group last year, building a more distinguished image on quality and energy for **MENGNIU** and thus enhanced customer loyalty.
- An outdoor activity "Mengniu Pure and Nature" (蒙牛親近自然快樂隨行) was organized in Hong Kong, Macau and the Philippines during the period, allowing customers to not only have a taste of fresh and pure Mongolian milk, but also get a personal feel of the nature in Inner Mongolia. The Group also actively expanded its business overseas by introducing products to countries such as Singapore, the Philippines and Malaysia.

Management Discussion and Analysis

- During the period under review, the Group and the National Basketball Association (“NBA”), an internationally renowned basketball association in the United States, jointly organized a series of events themed “care, health and nutrition”. The events included “Milk Loving Care” (中國牛奶愛心行動), a large-scale milk sponsorship program, and the “NBA Jam Van for Basketball Fans” (NBA籃球大篷車互動球迷活動) to tie in with the “Mengniu’s Inter-city All People Body-building Campaign” (蒙牛城市之間全民健身運動), both aimed at promoting a healthy lifestyle of “Drink more milk and exercise more” (多喝牛奶多運動) among the public in the PRC.

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

Products

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

Liquid milk

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

UHT milk

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

Management Discussion and Analysis

Milk beverages

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

Yogurt

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

Ice cream

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

Other dairy products

Revenue from other dairy products amounted to RMB81.7 million, accounting for 0.8% of the Group's revenue. The Group currently offers milk powder products under the **MENGNIU** brand, as well as *Mengniu Arla* (蒙牛阿拉) and *Millex* (美蕾茲), which were jointly launched with Arla Foods a.m.b.a. The wide variety of milk powder products offered by the Group are designed with specific formulae targeting the needs of consumers at

Management Discussion and Analysis

different ages, including infants, young children, the middle-aged and elderly. During the period under review, the Group formed a membership club, which organized various activities such as mothering skills seminars for pregnant mothers. It is a mean for the Group to build a strong platform for expanding the infants formula milk powder market.

Raw Milk Supply

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

Production and Operation

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

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

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

Ventures and Alliances

Along with the goal of building strong alliances with international enterprises, the Group has successfully allied with NBA, a world-renowned association with the same ambitions as Mengniu. In January 2007, the Group had become the official partner of NBA in China and also the exclusive supplier of dairy products such as liquid milk and yogurt for all NBA games in the country. The Group believes NBA's energetic image and Mengniu's healthy image can work well together in promoting a healthy lifestyle of "Drink more milk and exercise more". The

Management Discussion and Analysis

strategic alliance does not only give recognition to the Group's products, but also act as a proof of advancing China's dairy industry onto the global stage.

Social Responsibilities

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

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

Prospects

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

Collaborate with raw milk ranches for enhancing dairy product quality

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

Management Discussion and Analysis

Implement new marketing strategy to appeal to target clientele

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

Strengthen collaboration with partners by developing multi-level alliances

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

Human Resources and Remuneration of Employees

As at 30 June 2007, the Group had approximately 26,000 employees in China and Hong Kong. Staff costs, excluding directors' fees, were approximately RMB413.9 million (2006: RMB328.8 million) for the period. To enhance the quality and competence of employees, the Group provided various pre-job and on-the-job trainings to newly joined and existing staff during the period on inter alia the latest industry knowledge and technical and management skills. In addition, the Group also organized various activities during the period under review, which allow the staff to have a better understanding of the Group's corporate culture, business concepts and mission. To reward employees and provide work incentives, competitive remuneration packages with performance-based bonuses and share option plans were provided to staff members.

Report of the Directors

The Board of Directors (the "Directors") has the pleasure in submitting the interim report together with the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007 ("interim financial statements").

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: nil) and proposed that the profit for the period be retained.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2007, the interests and short positions of the Directors and chief executives of the Company in the shares of the Company and associated corporation as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance ("SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Name of Director	Company/Name of Associated Corporation	Nature of Interest	Total Number of Ordinary Shares	Percentage of the Company's/ Associated Corporation's Issued Share Capital
Niu Gensheng	The Company	Personal Interest	45,505,172(L)	3.19%
	The Company	Corporate Interest (<i>Note</i>)	176,104,130(L)	12.35%
	Mengniu	Personal Interest	16,514,220(L)	6.18%
	Mengniu	Personal Interest	7,325,670(S)	2.74%
Lu Jun	Mengniu	Personal Interest	804,646(L)	0.30%
Yang Wenjun	Mengniu	Personal Interest	1,068,646(L)	0.40%
Sun Yubin	Mengniu	Personal Interest	1,772,646(L)	0.66%

Note:

These shares are held by Yinniu Milk Industry Limited ("Yinniu"), a substantial shareholder of the Company, and Niu Gensheng, by virtue of the Xie Trust, has been delegated voting rights to the shares in Yinniu held in the Xie Trust. The Xie Trust has been in effect since September 2002 and is a trust declared by Xie Qiuxu in respect of the shares in Yinniu held on trust by him for a selected group of individuals comprising employees and business associates of Inner Mongolia Mengniu Dairy (Group) Company Limited ("Mengniu"). Xie Qiuxu has similarly delegated the voting rights of his own shares in Yinniu to Niu Gensheng. Together with his personal interest in Yinniu, Niu Gensheng controls 80.2% of the voting rights of Yinniu as of 30 June 2007.

(L) Indicates a long position.

(S) Indicates a short position.

Report of the Directors

Saved as disclosed above, as at 30 June 2007, none of the Directors and the chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Substantial Shareholders' Interests

As at 30 June 2007, the interests or short positions of substantial shareholders, other than the Directors or the chief executives of the Company whose interests and short positions in the shares of the Company are set out above, in the shares and underlying shares of the Company in the register maintained under section 336 of the SFO were as follows:

Name of Substantial Shareholder	Number of Ordinary Shares	Percentage of Issued Share Capital
Xie Qiuxu (Note 1)	176,104,130(L)	12.35%
Yinniu (Note 1)	176,104,130(L)	12.35%
Jinniu Milk Industry Limited ("Jinniu") (Note 2)	137,395,836(L)	9.64%

Notes:

- (1) As at 30 June 2007, Xie Qiuxu legally owned 52.85% of the issued share capital of Yinniu, which directly owned 12.35% of the issued shares of the Company. Accordingly, the 176,104,130 shares attributable to Xie Qiuxu above represent his indirect effective interest in the Company via his legal shareholding interest in Yinniu.
 - (2) 10 founding individuals, namely Niu Gensheng, Deng Jiuqiang, Hou Jiangbin, Sun Yubin, Qiu Lianjun, Yang Wenjun, Pang Kaitai, Lu Jun, Sun Xianhong and Xie Qiuxu, have been acting as a controlling group over the business since its inception in 1999. Therefore, they as a group are controlling shareholders of the Company. As at 30 June 2007, Niu Gensheng, Deng Jiuqiang, Lu Jun, Sun Yubin, Yang Wenjun, Sun Xianhong and Qiu Lianjun who are shareholders of Jinniu together controlled approximately 85.89% of Jinniu. Niu Gensheng, Xie Qiuxu, Pang Kaitai, Hou Jiangbin and Deng Jiuqiang who are shareholders of Yinniu together controlled approximately 86.13% of Yinniu. As at 30 June 2007, Jinniu and Yinniu in aggregate controlled approximately 21.99% of the voting power at the general meeting of the Company.
 - (3) As at 30 June 2007, Halbis Capital Management (Hong Kong) Limited ("Halbis") owned 68,539,000 shares, representing 4.81% share interest in the Company. The notification form filed by Halbis reporting this share interest was 5%, which was calculated based on the issued share capital of the Company prior to the placing exercise as disclosed in the Company's announcement dated 13 April 2007.
- (L) Indicates a long position.

Report of the Directors

Saved as disclosed above, as at 30 June 2007, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register maintained under section 336 of the SFO.

Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, employees of the Group, suppliers of goods or services to the Group, customers and any person or entity that provides research, development or technological support to the Group.

On 26 October 2006, 6,803,000 share options were granted to eligible participants at an exercise price of HK\$13.4 for each share of the Company to be issued. The following share options were outstanding under the Scheme during the six months ended 30 June 2007:

Name or category of participant	Number of share options				Date of grant of share options	Exercise period of share options (both dates inclusive)	Exercise price of share options HK\$
	As at 1 January 2007	Exercised during the period	Lapsed during the period	As at 30 June 2007			
Employees in aggregate	6,803,000	—	178,000	6,625,000	26.10.2006	26.10.2007 to 25.10.2012	13.40

The share options will vest in four equal batches with 25% of the share options granted vesting on the first, second, third and fourth anniversary of the date of grant and accordingly, grantees have to remain in service of the Group for at least a period of four years from the date of grant in order to exercise the share options granted to them in full. In addition, the share options will only be vested if and when the pre-set performance targets of the Group, the division of the grantee and the grantee are achieved. Unless all of these targets are met, the share options will lapse.

During the six months ended 30 June 2007, no share options were further granted or exercised under the Scheme.

Report of the Directors

Foreign Currency Risk

The Group's businesses are principally located in the People's Republic of China and substantially all transactions are conducted in RMB, except for the purchases of certain machinery and equipment and sales of dairy products to Hong Kong and Macau. As at 30 June 2007, substantially all of the Group's assets and liabilities were denominated in RMB except that cash and cash equivalents of approximately RMB1,206,282,000 (31 December 2006: RMB16,322,000) were denominated in United States dollars and Hong Kong dollars, and interest-bearing bank loans and long term payables aggregating to approximately RMB507,271,000 (31 December 2006: RMB621,347,000) were denominated in United States dollars. Management has set up procedures to periodically review and monitor the foreign currency risk exposure.

Pledge of Assets

As at 30 June 2007, the Group pledged bank deposits, bills receivable and certain property, plant and equipment aggregating approximately RMB760,987,000 (31 December 2006: RMB774,400,000). Details are set out in the respective notes to the interim financial statements.

Contingent Liabilities and Capital Commitments

Details of contingent liabilities and capital commitments are set out in Notes 24 and 25, respectively, to the interim financial statements.

Corporate Governance

The Company is dedicated to ensure high standards of corporate governance with an emphasis on a diligent board of directors, sound internal control, and increasing transparency and accountability to shareholders. The Board acknowledges that good corporate governance practices and procedures are beneficial to the Group and its shareholders.

The Company has adopted the code provisions set out in the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance practices.

None of the Directors is aware of any information that would reasonably indicate that the Company was not at any time during the six months ended 30 June 2007 in compliance with the CG Code.

Report of the Directors

Board of Directors

The Board currently comprises three Executive Directors, namely, Mr. Niu Gensheng, Mr. Yang Wenjun and Mr. Sun Yubin; three Non-executive Directors, namely, Mr. Jiao Shuge (alias Jiao Zhen), Ms. Lu Jun and Mr. Julian Juul Wolhardt; and three Independent Non-executive Directors, namely, Mr. Wang Huaibao, Mr. Zhang Julin and Mr. Li Jianxin.

Securities Transactions of Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. Having made specific enquiry of all Directors of the Company, the Company confirms that the Directors have strictly complied with the Model Code during the reporting period.

Purchase, Sale or Redemption of the Company's Listed Shares

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Audit Committee

The Audit Committee comprises three Non-executive Directors, two of whom are independent. The current committee members are Mr Zhang Julin (chairman), Mr Li Jianxin and Mr Jiao Shuge. The Audit Committee has reviewed with the Company's management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters, including the review of the unaudited interim financial statements for the six months ended 30 June 2007.

Investor Relations and Communications

The Company adopts a proactive policy in promoting investor relations and communications. Regular meetings are held with institutional investors and financial analysts to ensure two-way communications on the Company's performance and development.

By order of the Board of Directors

Niu Gensheng

Chief Executive Officer

Hong Kong, 12 September 2007

Condensed Consolidated Income Statement

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

Condensed Consolidated Balance Sheet

		Unaudited	Audited
	Notes	30 June 2007	31 December 2006
		RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	4,552,843	4,160,283
Construction in progress	11	387,047	348,405
Other intangible assets		28,417	13,204
Land use rights		192,836	128,386
Interests in associates		40,338	40,371
Available-for-sale investments		16,817	15,316
Goodwill	23	199,143	115,549
		5,417,441	4,821,514
CURRENT ASSETS			
Inventories	12	855,477	1,071,460
Bills receivable	13	235,093	128,093
Trade receivables	14	291,475	186,976
Prepayments and deposits		207,531	162,120
Other receivables		27,894	18,386
Pledged deposits	15	37,233	45,071
Cash and bank balances	15	2,855,234	1,330,058
		4,509,937	2,942,164
CURRENT LIABILITIES			
Trade payables	16	1,391,965	1,034,699
Bills payable	17	405,500	323,736
Deferred income		8,989	7,889
Accruals and customers' deposits	18	542,792	467,075
Other payables		977,038	972,728
Interest-bearing bank loans	19	232,885	234,022
Dividend payables		182,023	—
Other loans		63,900	31,000
Income tax payable		4,850	6,104
		3,809,942	3,077,253
NET CURRENT ASSETS/(LIABILITIES)		699,995	(135,089)
TOTAL ASSETS LESS CURRENT LIABILITIES		6,117,436	4,686,425

Condensed Consolidated Balance Sheet

	Notes	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	19	371,386	641,136
Long term payables	20	292,580	292,110
Deferred income		146,132	120,499
		810,098	1,053,745
NET ASSETS			
		5,307,338	3,632,680
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	21	151,255	145,573
Retained earnings		1,322,945	993,822
Other reserves	22	3,194,046	1,859,469
		4,668,246	2,998,864
Minority interests		639,092	633,816
TOTAL EQUITY			
		5,307,338	3,632,680

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company				Minority interests	Total equity
	Issued capital	Other reserves	Retained earnings	Total		
	RMB'000	(Note 22) RMB'000	RMB'000	RMB'000		
For the six months ended 30 June 2007 (unaudited)						
At 1 January 2007	145,573	1,859,469	993,822	2,998,864	633,816	3,632,680
Profit for the period	—	—	485,143	485,143	88,965	574,108
Currency translation differences	—	(15,755)	—	(15,755)	—	(15,755)
Total income and expense for the period	—	(15,755)	485,143	469,388	88,965	558,353
Issue of shares (Note 21)	5,682	1,342,547	—	1,348,229	—	1,348,229
Equity-settled share option arrangements	—	7,785	—	7,785	—	7,785
Acquisition of minority interests (Note 23)	—	—	—	—	(50,806)	(50,806)
Transfer to dividend payable	—	—	(156,020)	(156,020)	(32,883)	(188,903)
At 30 June 2007	151,255	3,194,046	1,322,945	4,668,246	639,092	5,307,338
For the six months ended 30 June 2006 (unaudited)						
At 1 January 2006	145,573	1,615,741	569,307	2,330,621	436,458	2,767,079
Profit for the period	—	—	343,425	343,425	71,317	414,742
Currency translation differences	—	126	—	126	—	126
Total income and expenses for the period	—	126	343,425	343,551	71,317	414,868
Capital injections from minority shareholders	—	—	—	—	85,159	85,159
Additional equity contributed by a minority shareholder	—	16,918	—	16,918	(16,918)	—
Acquisition of minority interests	—	—	—	—	(358)	(358)
Transfer to dividend payable	—	—	(93,873)	(93,873)	(21,833)	(115,706)
At 30 June 2006	145,573	1,632,785	818,859	2,597,217	553,825	3,151,042

Condensed Consolidated Statement of Cash Flows

	Notes	Unaudited	
		For the six months ended 30 June	
		2007	2006
		RMB'000	RMB'000
Net cash inflow from operating activities		1,412,391	627,695
Net cash outflow from investing activities		(824,462)	(601,517)
Net cash inflow from financing activities		1,057,247	187,530
Net increase in cash and cash equivalents		1,645,176	213,708
Cash and cash equivalents at 1 January	15	1,180,058	1,247,764
Cash and cash equivalents at 30 June	15	2,825,234	1,461,472

Notes to Condensed Financial Statements

1. Corporate information

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 16 February 2004. The Company is an investment holding company and its subsidiaries are engaged in the manufacture and distribution of dairy products in the People's Republic of China (the "PRC").

2. Basis of preparation and accounting policies

Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2007 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2006.

Significant accounting policies

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

- IAS 1 Presentation of Financial Statements
This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.
- IFRS 7 Financial Instruments: Disclosures
IFRS7 requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.
- IFRIC 8 Scope of IFRS 2
IFRIC Interpretation 8 requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than the fair value of the equity instruments granted or liability incurred.

Notes to Condensed Financial Statements

2. Basis of preparation and accounting policies *(continued)*

- IFRIC 9 Reassessment of Embedded Derivatives
IFRIC Interpretation 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.
- IFRIC 10 Interim Financial Reporting and Impairment
IFRIC Interpretation 10 requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

3. Segment information

The Group comprises the following business segments:

- liquid milk products segment — manufacture and distribution of ultra-high temperature milk (“UHT milk”), milk beverages and yogurt;
- ice cream products segment — manufacture and distribution of ice cream; and
- other dairy products segment — manufacture and distribution of milk powder.

As the Group mainly operates and generates its revenue and results in the PRC, no geographical segment analysis is presented.

Notes to Condensed Financial Statements

3. Segment information *(continued)*

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

	Unaudited	
	For the six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Segment revenue:		
Liquid milk	8,802,955	6,432,118
Ice cream	1,136,555	1,014,767
Other dairy products	81,668	99,470
	10,021,178	7,546,355
Segment results:		
Liquid milk	628,298	426,583
Ice cream	60,630	79,055
Other dairy products	(10,403)	3,629
	678,525	509,267
Unallocated corporate expenses	(83,253)	(26,926)
Profit from operating activities	595,272	482,341
Interest income	19,698	8,075
Finance costs	(29,532)	(29,060)
Share of profits of associates	3,543	1,825
Profit before tax	588,981	463,181
Income tax expense	(14,873)	(48,439)
Profit for the period	574,108	414,742

Notes to Condensed Financial Statements

3. Segment information *(continued)*

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Segment assets:		
Liquid milk	6,589,173	6,049,910
Ice cream	1,256,201	1,029,309
Other dairy products	188,627	118,804
Unallocated corporate assets	2,613,772	1,668,720
Eliminations	(720,395)	(1,103,065)
Total assets	9,927,378	7,763,678
Segment liabilities:		
Liquid milk	3,484,187	3,809,625
Ice cream	688,300	471,854
Other dairy products	78,704	33,655
Unallocated corporate liabilities	1,089,244	918,929
Eliminations	(720,395)	(1,103,065)
Total liabilities	4,620,040	4,130,998

Notes to Condensed Financial Statements

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	
		2007	2006
	Notes	RMB'000	RMB'000
Revenue		10,021,178	7,546,355
Other income and gains			
Government grants	(i)	11,920	2,529
Amortisation of deferred income	(ii)	3,944	2,072
Foreign exchange gains, net		13,670	5,443
Others		2,361	687
		31,895	10,731
		10,053,073	7,557,086

Notes:

- (i) The government grants have been received for the Group's contribution to the local economy with respect to the establishment of infrastructure relating to the dairy products industry. There are no unfulfilled conditions or contingences attaching to these grants.
- (ii) The Group has received certain government grants in the form of property, plant and equipment donations or cash donations to purchase 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' useful lives.

Notes to Condensed Financial Statements

5. Profit before tax

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

	Unaudited	
	For the six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Employee benefits expense (excluding directors' fees as disclosed in Note 26)	413,873	328,796
Depreciation of property, plant and equipment	237,325	187,661
Amortisation of other intangible assets	1,296	—
Amortisation of land use rights	2,159	888
Cost of inventories sold	7,569,947	5,788,670

6. Finance costs

	Unaudited	
	For the six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Interest on bank loans and long term payables wholly repayable within 5 years	23,641	23,460
Interest on long term payables	6,733	5,600
Less: Amounts capitalised	(842)	—
	29,532	29,060

The amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of obtaining qualifying assets. The interest rates on capitalised borrowings during the period varied from 5.5% to 6.3% per annum.

Notes to Condensed Financial Statements

7. Income tax expense

- (a) Hong Kong profits tax has not been provided as the Group has no assessable profits arising in Hong Kong during the period.
- (b) The tax charge represents the provision for PRC corporate income tax ("CIT") for the period at the prevailing tax rates applicable thereto.

During the period, certain PRC subsidiaries were subject to tax exemption in accordance with the "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" under which these subsidiaries would be exempted from CIT for the first two profitable years, followed by a 50% reduction for the next three profitable years, or "The Notice of Income Tax Exemption for the Country's Key Enterprises in Agricultural Industries".

8. Earnings per share

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

The diluted earnings per share amounts for the period is calculated by dividing the profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

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

	Unaudited	
	For the six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Profit attributable to ordinary equity holders of the Company	485,143	343,425

Notes to Condensed Financial Statements

8. Earnings per share *(continued)*

	Number of shares (in thousand)	Number of shares (in thousand)
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	1,391,591	1,368,416
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the period	386	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	1,391,977	1,368,416

9. Dividend

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

10. Property, plant and equipment

Movements of the Group's property, plant and equipment are as follows:

	Unaudited 2007 RMB'000	Unaudited 2006 RMB'000
Carrying amount at 1 January	4,160,283	3,140,433
Additions	289,785	247,846
Contributions from minority shareholders	—	74,578
Transfers from construction in progress (Note 11)	353,609	625,839
Disposals	(13,509)	(7,144)
Depreciation charge for the period	(237,325)	(187,661)
Carrying amount at 30 June	4,552,843	3,893,891

Certain property, plant and equipment of the Group with a net book value of approximately RMB664,054,000 (31 December 2006: RMB609,929,000) have been pledged to secure the long term payables of the Group (Note 20).

Notes to Condensed Financial Statements

11. Construction in progress

Movements of the Group's construction in progress, all of which is located in the PRC, are as follows:

	Unaudited 2007 RMB'000	Unaudited 2006 RMB'000
Carrying amount at 1 January	348,405	235,373
Additions	392,251	527,031
Transfers to property, plant and equipment (Note 10)	(353,609)	(625,839)
Carrying amount at 30 June	387,047	136,565

12. Inventories

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Raw materials	455,736	520,050
Finished goods	399,741	551,410
	855,477	1,071,460

13. Bills receivable

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

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Within 3 months	227,643	125,140
4 — 6 months	7,450	2,953
	235,093	128,093

As at 30 June 2007, the bills receivable amounting to approximately RMB59,700,000 (31 December 2006: RMB119,400,000) were factored with recourse to financial institutions. The corresponding amounts were recorded as short term bank loans (Note 19).

Notes to Condensed Financial Statements

14. Trade receivables

The Group normally allows a credit period of not more than 30 days to its customers. The Group closely monitors overdue balances. In view of the aforementioned and that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Within 3 months	270,350	163,944
4 — 6 months	17,576	20,453
7 — 12 months	2,958	2,104
Over 1 year	591	475
	291,475	186,976

The amounts due from associates of approximately RMB118,846,000 (31 December 2006: RMB66,459,000) and an amount due from a jointly-controlled entity of approximately RMB3,390,000 (31 December 2006: RMB1,973,000) are included in the above balance. These balances are unsecured, non-interest-bearing and are repayable on credit terms similar to those offered to other major customers of the Group.

15. Cash and bank balances and pledged deposits

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Cash and cash equivalents	2,825,234	1,180,058
Pledged deposits	37,233	45,071
Time deposits with original maturity of more than three months	30,000	150,000
	2,892,467	1,375,129
Less: Deposits pledged for banking facilities	(37,233)	(45,071)
Cash and bank balances	2,855,234	1,330,058

Notes to Condensed Financial Statements

16. Trade payables

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

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Within 3 months	1,325,568	971,494
4 — 6 months	54,257	51,696
7 — 12 months	7,650	5,623
Over 1 year	4,490	5,886
	1,391,965	1,034,699

An amount due to an associate of approximately RMB4,902,000 (31 December 2006: RMB4,872,000) is included in the above balance. The balance is unsecured, non-interest-bearing and is repayable on demand.

The Group's trade payables are unsecured, non-interest-bearing and are repayable on demand.

17. Bills payable

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

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Within 3 months	274,280	221,527
4 — 6 months	131,220	102,209
	405,500	323,736

Except for an aggregate balance of approximately RMB118,212,000 (31 December 2006: RMB152,902,000) secured by the pledge of certain of the Group's deposits amounting to RMB30,901,000 (31 December 2006: RMB36,438,000), bills payable are unsecured.

Notes to Condensed Financial Statements

18. Accruals and customers' deposits

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Advances from customers	284,501	274,141
Salary and welfare payables	133,760	132,596
Other accruals	124,531	60,338
	542,792	467,075

Amounts due to associates of approximately RMB31,083,000 (31 December 2006: RMB52,206,000) are included in the above balance. The balances are unsecured, non-interest-bearing and are repayable on demand.

19. Interest-bearing bank loans

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Short term bank loans, secured	59,700	119,400
Short term bank loans, unsecured	173,185	114,622
Long term bank loans, unsecured	371,386	641,136
	604,271	875,158

As at 30 June 2007, short term bank loans of approximately RMB59,700,000 (31 December 2006: RMB119,400,000) were secured by certain bills receivable of the Group (Note 13).

During the period, the Group obtained new bank loans amounting to approximately RMB170,083,000 (six months ended 30 June 2006: RMB421,990,000) and repaid bank loans of approximately RMB434,326,000 (six months ended 30 June 2006: RMB235,590,000).

During the period, the annual interest rates of the short term bank loans and the long term bank loans varied from 3.0% to 5.8% and from 3.0% to 6.6% (six months ended 30 June 2006: varied from 3.0% to 5.9% and from 3.0% to 5.9%), respectively. As at 30 June 2007, the Group's interest-bearing bank loans were denominated in Renminbi, except for loans of approximately US\$12,600,000 (equivalent to approximately RMB95,955,000) (31 December 2006: US\$33,000,000) denominated in United States dollars.

Notes to Condensed Financial Statements

19. Interest-bearing bank loans *(continued)*

The repayment schedule of the bank loans is as follows:

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Within 1 year	232,885	234,022
1 — 2 years	266,386	399,630
2 — 5 years	105,000	241,506
Total interest-bearing bank loans	604,271	875,158
Less: Amount due within 1 year included in current liabilities	(232,885)	(234,022)
	371,386	641,136

20. Long term payables

The Group's long term payables represent the amortised costs of outstanding instalments payable for the purchase of production equipment. The effective interest rate used for the amortisation is the prevailing market interest rate. The balances are repayable as follows:

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Within 1 year	208,327	201,423
1 — 2 years	129,073	122,889
2 — 5 years	159,436	164,862
Over 5 years	4,071	4,359
Total long term payables	500,907	493,533
Less: Amount due within 1 year included in current liabilities under other payables	(208,327)	(201,423)
	292,580	292,110

Certain long term payables are secured by the Group's property, plant and equipment (Note 10).

Notes to Condensed Financial Statements

21. Share capital

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
<i>Authorised:</i>		
3,000,000,000 ordinary shares of HK\$0.1 each	319,235	319,235
	Number of ordinary shares	
	'000	RMB'000
<i>Issued and fully paid:</i>		
At 1 January 2007 (Audited)	1,368,416	145,573
Issue of shares (Note)	57,460	5,682
At 30 June 2007 (Unaudited)	1,425,876	151,255

Note:

On 26 April 2007, the Company completed the placing of 57,460,000 new shares of the Company with a par value of HK\$0.1 each at the placing price of HK\$24 (equivalent to RMB23.73) per share, resulting in proceeds, net of share issue expenses, of approximately HK\$1,363,404,000 (equivalent to approximately RMB1,348,229,000). The placing gave rise to a share premium of HK\$1,357,658,000 (equivalent to approximately RMB1,342,547,000), being the excess of the gross proceeds less share issue expenses over the par value of the new shares issued of HK\$5,746,000 (equivalent to approximately RMB5,682,000).

Notes to Condensed Financial Statements

22. Other reserves

Movements in other reserves of the Group during the period are as follows:

	Share premium RMB'000	Contributed surplus RMB'000	Statutory reserves RMB'000	Currency translation differences RMB'000	Share option reserve RMB'000	Total RMB'000
For the six months ended 30 June 2007 (unaudited)						
At 1 January 2007	1,127,581	232,020	495,063	1,697	3,108	1,859,469
Issue of shares (Note 21)	1,342,547	—	—	—	—	1,342,547
Currency translation differences	—	—	—	(15,755)	—	(15,755)
Equity-settled share option arrangements	—	—	—	—	7,785	7,785
At 30 June 2007	2,470,128	232,020	495,063	(14,058)	10,893	3,194,046
For the six months ended 30 June 2006 (unaudited)						
At 1 January 2006	1,127,581	204,677	286,099	(2,616)	—	1,615,741
Additional equity contributed by a minority shareholder (Note)	—	16,918	—	—	—	16,918
Currency translation differences	—	—	—	126	—	126
At 30 June 2006	1,127,581	221,595	286,099	(2,490)	—	1,632,785

Note:

The opening balance as at 1 January 2006 of the contributed surplus of the Group represented the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation and the nominal value of the shares of the Company issued in exchange therefor.

During the six months ended 30 June 2006, a minority shareholder injected additional capital to a subsidiary of the Group in the form of property, plant and equipment. The amount of capital injected by the minority shareholder exceeded its share of the additional interest in the subsidiary's net assets. The excess attributable to the Company's equity holders amounting to approximately RMB16,918,000 was recorded in the contributed surplus of the Group.

Notes to Condensed Financial Statements

23. Goodwill

	Unaudited 2007 RMB'000	Unaudited 2006 RMB'000
Carrying amount at 1 January	115,549	115,549
Acquisition of minority interests (Note)	83,594	—
Carrying amount at 30 June	199,143	115,549

Note:

On 3 April 2007, the Group entered into an agreement to acquire the 48% interest in Mengniu (Wuhan) Frealth Dairy Co., Ltd. ("Mengniu Wuhan") from a minority shareholder at a consideration of RMB134,400,000. The acquisition gave rise to goodwill of RMB83,594,000. After the acquisition, Mengniu Wuhan became a wholly-owned subsidiary of Inner Mongolia Mengniu Dairy (Group) Company Limited. Details of the acquisition were disclosed in the Company's announcement dated 4 April 2007.

24. Contingent liabilities

The Group is contingently liable in respect of loan guarantees granted to certain banks in favour of certain suppliers of raw milk (the "Suppliers"). The amount of guarantees granted as at 30 June 2007 amounted to RMB116,976,000 (31 December 2006: RMB153,976,000). The guarantees are solely given by the Group, but the guarantees are counter-guaranteed by the Suppliers who are independent third parties. Security under these counter-guarantees included property, dairy cattle and other assets owned by these Suppliers.

25. Capital Commitments

The Group had the following outstanding capital commitments in respect of the purchase and construction of property, plant and equipment as at the balance sheet date:

	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
Contracted, but not provided for	377,503	613,660
Authorised, but not contracted for	613,481	—
	990,984	613,660

Notes to Condensed Financial Statements

26. Related party transactions

The Group had the following material transactions with related parties during the period. In the opinion of the directors, the transactions were conducted in the ordinary course of business.

	Notes	Unaudited	
		For the six months ended 30 June	
		2007	2006
		RMB'000	RMB'000
Sale of liquid milk products to associates	(i)	1,376,901	954,859
Sale of ice cream products to associates		73,520	82,389
Purchase of raw materials from an associate	(i)	53,407	24,257
Sale of raw materials to a jointly-controlled entity	(ii)	10,065	—
Key management compensation	(iii)		
— directors' fees		135	135
— salaries and allowances		2,595	2,326
— retirement benefits contributions		121	69
— share-based payment expenses		374	—

Notes:

- (i) The considerations were determined with reference to the then prevailing market prices/rates and the prices charged to third parties.
- (ii) Such transactions were conducted at cost, which approximated to the prevailing market price of the materials.
- (iii) The key management compensation represented remuneration paid or payable to the directors and senior management of the Company.

27. Approval of the interim financial statements

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 12 September 2007.

Report on Review of Interim Financial Information

To the Board of Directors

China Mengniu Dairy Company Limited

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 16 to 37 which comprises the condensed consolidated balance sheet of China Mengniu Dairy Company Limited and its subsidiaries as at 30 June 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants

18/F Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong
12 September 2007