蒙牛

CHINA MENGNIU DAIRY COMPANY LIMITED
中國蒙牛乳業有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2319)

ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

FINANCIAL HIGHLIGHTS

	Unaudited For the six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Revenue	**12,097,615**	13,702,409
Net profit attributable to equity holders of the Company	**661,898**	582,913
Net cash inflow from operating activities	**1,748,270**	896,756
Earnings per share *(RMB)*		
– Basic	**0.424**	0.409
– Diluted	**0.424**	0.409

- The Group's revenue amounted to RMB12,097.6 million (2008: RMB13,702.4 million), a 19% increase compared with the second half of 2008. Profit attributable to equity holders of the Company was RMB661.9 million, showing a gradual recovery of the Group's overall turnover to the level before the milk incident last year and achieving satisfactory results.

- The Group further expanded its production capacity and its aggregate annual production capacity reached 5.74 million tons as of June 2009.

- Mengniu was ranked the 19th in the 2009 Global Dairy Company list, and became the first China dairy company which made it among the World's Top 20 dairy enterprises.

- In July 2009, the Group secured capital injection from COFCO Limited, a leading oil and food enterprise in China, and Hopu Investment Management Co., Ltd, a reknown private equity fund, to bring in resources including industry experiences, global customer networks and a well-established food safety control system to Mengniu.

The board (the "Board") of directors (the "Directors") of China Mengniu Dairy Company Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2009, together with the comparative amounts. The interim results and condensed interim financial statements have been reviewed by the audit committee ("Audit Committee") and the auditors of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited For the six months ended 30 June	
		2009	2008
	Notes	***RMB'000***	*RMB'000*
Revenue	*3*	**12,097,615**	13,702,409
Cost of sales		**(8,864,575)**	(10,397,985)
Gross profit		**3,233,040**	3,304,424
Other income and gains		**16,625**	82,828
Selling and distribution costs		**(1,942,467)**	(2,287,991)
Administrative expenses		**(376,279)**	(326,643)
Other operating expenses		**(86,688)**	(29,221)
Profit from operating activities		**844,231**	743,397
Interest income		**16,242**	16,757
Finance costs	*5*	**(47,916)**	(14,279)
Share of profits and losses of associates		**7,530**	4,013
Profit before tax	*4*	**820,087**	749,888
Income tax expense	*6*	**(97,726)**	(62,087)
Profit for the period		**722,361**	687,801
Attributable to:			
Equity holders of the Company		**661,898**	582,913
Non-controlling interests		**60,463**	104,888
		722,361	687,801
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)	*7*		
– Basic		**0.424**	0.409
– Diluted		**0.424**	0.409

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**Unaudited 30 June 2009** *RMB'000*	Audited 31 December 2008 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**4,995,367**	5,247,072
Construction in progress		**263,097**	215,017
Other intangible assets		**32,797**	32,667
Land use rights		**299,724**	256,524
Interests in associates		**63,460**	40,107
Available-for-sale investments		**17,979**	18,029
Goodwill		**199,143**	199,143
Deferred tax assets		**136,998**	186,881
Other financial assets		**13,177**	18,333
		6,021,742	6,213,773
CURRENT ASSETS			
Inventories		**784,288**	824,453
Bills receivable	*9*	**220,941**	64,778
Trade receivables	*10*	**475,669**	284,079
Prepayments and deposits		**164,021**	374,904
Other receivables		**114,761**	90,679
Pledged deposits		**169,925**	41,693
Cash and bank balances		**3,708,199**	3,041,965
		5,637,804	4,722,551
Assets of a disposal group classified as held for sale		**–**	378,951
		5,637,804	5,101,502
CURRENT LIABILITIES			
Trade payables	*11*	**1,850,438**	2,155,265
Bills payable	*12*	**1,119,996**	239,345
Deferred income		**13,130**	12,918
Accruals and customers' deposits		**682,015**	745,535
Other payables		**1,200,695**	1,048,792
Interest-bearing bank loans		**492,808**	1,208,660
Other loans		**116,967**	72,942
		5,476,049	5,483,457
Liabilities directly associated with assets classified as held for sale		**–**	282,649
		5,476,049	5,766,106
NET CURRENT ASSETS/(LIABILITIES)		**161,755**	(664,604)
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,183,497**	5,549,169

	Notes	**Unaudited 30 June 2009** *RMB'000*	Audited 31 December 2008 *RMB'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank loans		**350,000**	520,000
Long term payables		**65,835**	107,988
Deferred income		**176,987**	183,210
		592,822	811,198
NET ASSETS		**5,590,675**	4,737,971
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		**163,154**	163,137
Retained earnings		**1,025,453**	363,555
Other reserves		**4,077,258**	3,937,924
		5,265,865	4,464,616
Non-controlling interests		**324,810**	273,355
TOTAL EQUITY		**5,590,675**	4,737,971

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2009 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 2008.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those in the Group's annual financial statements for the year ended 31 December 2008, except for the adoption of the following new or revised standards and interpretations as of 1 January 2009. The adoption of these interpretations did not have any material impact on the financial position or operation results of the Group in the unaudited interim condensed consolidated financial statements for the current period.

- Amendments to IFRS 1 *First-time adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

  The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The IFRS 1 Amendment allows a first-time adopter of IFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The amendments have no impact on the consolidated financial statements. As the Group is not a first-time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

- Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

  The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into any share-based payment schemes with non-vesting conditions attached and, therefore, the amendments have no financial impact on the Group.

- Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

  The amendments to IFRS 7 are made to enhance disclosures about fair value measurement and liquidity risk to financial instruments, and do not have material financial impact on the Group.

- IFRS 8 *Operating Segments*

  IFRS 8, which replaces IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group determined that the operating segments identified under IFRS 8 *Operating Segments* were the same as the business segments previously identified under IAS 14 *Segment Reporting*. Adoption of this standard did not have any effect on the financial position or performance of the Group.

- IAS 1 (Revised) *Presentation of Financial Statements*

  IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

- IAS 23 (Revised) *Borrowing Costs*

  IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has no financial impact on the Group.

- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 – *Puttable Financial Instruments and Obligations Arising on Liquidation*

  The IAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. IAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

- Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*

  The amendment to IAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedges, the amendment has no financial impact on the Group.

  The amendments to IFRIC 9 and IAS 39 are made in response to the earlier amendments to IAS 39 and IFRS 7 regarding the reclassification of financial assets. As the Group has not reclassified hybrid financial instruments in accordance with the October 2008 amendments to IAS 39, the amendments have no financial impact on the Group.

- IFRIC 13 *Customer Loyalty Programmes*

  IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation is not applicable to the Group and therefore has no financial impact on the Group.

- IFRIC 15 *Agreements for the Construction of Real Estate*

  IFRIC 15 clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with IAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with IAS 18 *Revenue*. As the Group currently has no such agreement for the constructions of real estate, the interpretation does not have any financial impact on the Group.

- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

  IFRIC 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation does not have any financial impact on the Group.

Improvements to IFRSs

In May 2008, the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of some of the amendments resulted in changes to accounting policies, but none of these amendments have an impact on the financial position or performance of the Group.

3. REVENUE AND SEGMENT INFORMATION

The Group comprises the following operating 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.

The basis of segmentation and the basis of measurement of segment profit or loss are regularly reviewed by the chief operating decision maker.

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

Assets and liabilities related to the discontinued operation are shown separately in the consolidated balance sheet as "Assets of a disposal group classified as held for sale" and "Liabilities directly associated with assets classified as held for sale" as at 31 December 2008.

The following tables present the revenue, profit and certain asset and liability information for the Group's operating segments:

For the six months ended 30 June 2009 (Unaudited)	Liquid milk products *RMB'000*	Ice cream products *RMB'000*	Other dairy products *RMB'000*	Intersegment eliminations *RMB'000*	Consolidated *RMB'000*
Segment revenue:					
Sales to external customers	**10,287,461**	**1,657,686**	**152,468**	**–**	**12,097,615**
Intersegment sales	**32,373**	**15,072**	**1,019**	**(48,464)**	**–**
Total	**10,319,834**	**1,672,758**	**153,487**	**(48,464)**	**12,097,615**
Segment results	**940,795**	**71,462**	**(7,167)**	**–**	**1,005,090**
Interest income					**16,242**
Finance costs					**(47,916)**
Share of profits and losses of associates					**7,530**
Unallocated corporate expenses					**(160,859)**
Profit before tax					**820,087**
Income tax expense					**(97,726)**
Profit for the period					**722,361**
At 30 June 2009 (Unaudited)					
Assets and liabilities					
Segment assets	**8,514,165**	**1,282,800**	**326,601**	**–**	**10,123,566**
Unallocated corporate assets					**3,223,410**
Intragroup elimination					**(1,687,430)**
Total assets					**11,659,546**
Segment liabilities	**4,897,261**	**788,289**	**246,551**	**–**	**5,932,101**
Unallocated corporate liabilities					**1,824,200**
Intragroup elimination					**(1,687,430)**
Total liabilities					**6,068,871**

For the six months ended 30 June 2008 (Unaudited)	Liquid milk products *RMB'000*	Ice cream products *RMB'000*	Other dairy products *RMB'000*	Intersegment eliminations *RMB'000*	Consolidated *RMB'000*
Segment revenue:					
Sales to external customers	11,800,469	1,778,123	123,817	–	13,702,409
Intersegment sales	106,005	33,183	16	(139,204)	–
Total	11,906,474	1,811,306	123,833	(139,204)	13,702,409
Segment results	741,794	84,050	(1,229)	–	824,615
Interest income					16,757
Finance costs					(14,279)
Share of profits and losses of associates					4,013
Unallocated corporate expenses					(81,218)
Profit before tax					749,888
Income tax expense					(62,087)
Profit for the period					687,801
At 31 December 2008 (Audited)					
Assets and liabilities					
Segment assets	7,635,614	1,124,542	343,669	–	9,103,825
Unallocated corporate assets					3,609,218
Intragroup elimination					(1,776,719)
Total assets					10,936,324
Segment liabilities	4,646,734	664,541	256,434	–	5,567,709
Unallocated corporate liabilities					2,503,665
Intragroup elimination					(1,776,719)
Total liabilities					6,294,655

4. PROFIT BEFORE TAX

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

	Unaudited For the six months ended 30 June	
	2009 *RMB'000*	2008 *RMB'000*
Cost of inventories sold	**8,864,575**	10,397,985
Depreciation of property, plant and equipment	**332,559**	309,200
Amortisation of land use rights	**3,660**	2,665
Amortisation of other intangible assets	**2,417**	2,006
Employee benefit expense (excluding directors' fees)	**625,166**	559,769

5. FINANCE COSTS

	Unaudited For the six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**42,413**	9,818
Interest on long term payables	**5,503**	6,985
Less: Amounts capitalised	**–**	(2,524)
	47,916	14,279

6. INCOME TAX EXPENSE

The major components of income tax expense in the condensed consolidated income statement are:

	Unaudited For the six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Current income tax		
Current income tax charge	**47,843**	62,087
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences	**49,883**	–
	97,726	62,087

(a) Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the period.

(b) The tax charge represents the provision for PRC corporate income tax ("CIT") for the period at the prevailing tax rates applicable thereto.

During the period, certain PRC subsidiaries were subject to tax exemption in accordance with (i) the Corporate Income Tax Law of the People's Republic of China and the corresponding transitional tax concession policy; (ii) "The notice of preferential tax policies for companies located in West China"; and (iii) "The notice of preferential tax policy for preliminary processing of agricultural products".

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

The basic earnings per share amount 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 share options outstanding had no dilutive effect on the calculation of diluted earnings per share for the six months ended 30 June 2009. The diluted earnings per share amount 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 pursuant to contingent ordinary share provision in IAS 33 *Earnings Per Share*.

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

	Unaudited For the six months ended 30 June **2009** *RMB'000*	2008 *RMB'000*
Profit attributable to ordinary equity holders of the Company	**661,898**	582,913
	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	**1,561,663**	1,426,173
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the period	**–**	496
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	**1,561,663**	1,426,669

8. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: nil). During the six months ended 30 June 2009, the Company did not declare or pay final dividends (six months ended 30 June 2008: RMB0.1315 per share) for the year ended 31 December 2008 to the shareholders of the Company.

9. BILLS RECEIVABLE

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

	Unaudited 30 June 2009 *RMB'000*	Audited 31 December 2008 *RMB'000*
Within 3 months	**191,020**	64,678
4 – 6 months	**29,921**	100
	220,941	64,778

10. 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. The trade receivables are non-interest-bearing.

An aged analysis of the trade receivables of the Group, net of provision for doubtful debts, based on the invoice date, is as follows:

	Unaudited 30 June 2009 *RMB'000*	Audited 31 December 2008 *RMB'000*
Within 3 months	**422,732**	251,774
4 – 6 months	**37,210**	25,587
7 – 12 months	**14,178**	5,716
Over 1 year	**1,549**	1,002
	475,669	284,079

11. TRADE PAYABLES

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

	Unaudited 30 June 2009 *RMB'000*	Audited 31 December 2008 *RMB'000*
Within 3 months	**1,800,079**	2,033,138
4 – 6 months	**37,701**	112,082
7 – 12 months	**10,107**	8,289
Over 1 year	**2,551**	1,756
	1,850,438	2,155,265

12. BILLS PAYABLE

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

	Unaudited 30 June 2009 *RMB'000*	Audited 31 December 2008 *RMB'000*
Within 3 months	**955,597**	239,145
4 – 6 months	**164,399**	200
	1,119,996	239,345

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2009, the Group's revenue amounted to RMB12,097.6 million (2008: RMB13,702.4 million), a 19% increase compared with the second half of 2008, showing a gradual recovery of the Group's overall turnover to the level before the milk incident last year and achieving satisfactory results. Profit attributable to equity holders of the Company was RMB661.9 million (2008: RMB582.9 million). Basic and diluted earnings per share were both RMB0.424 (2008: RMB0.409).

Operating Expenses

During the first half of 2009, the selling and distribution costs of the Group amounted to RMB1,942.5 million (2008: RMB2,288 million), representing 16.1% (2008: 16.7%) of the Group's revenue, down by 0.6 percentage points as compared with the corresponding period last year. In line with the Olympic theme, the Group increased expenses on related advertising and propaganda, and launched various thematic promotion campaigns which commanded higher spending in the first half of 2008. As the Group reduced relevant spending in the first half of 2009, the ratio of advertising and promotion expense over the Group's revenue decreased from 9.2% in the first half of 2008 to 8.7% in the current period.

In the first half of 2009, administrative and other operating expenses amounted to RMB463 million (2008: RMB355.9 million), representing 3.8% of the Group's revenue (2008: 2.6%), up by 1.2 percentage points as compared with the corresponding period last year. During the period under review, the Group improved resources allocation and utilization rate via an optimized operation and management system, however, its overall administrative and other operating expenses increased primarily due to the impact of the amortization of the fair value expenses arising from the issued share options and etc.

Profit from Operating Activities

The Group's EBITDA for the period increased by 11.9% to RMB1,182.9 million (2008: RMB1,057.3 million), whilst EBITDA margin was 9.8% (2008: 7.7%). The increase in EBITDA margin was mainly the result of decreased raw material costs, constant efforts of the Group to optimize its product portfolio and implement precise cost control.

Capital Structure, Liquidity and Financial Resources

For the six months ended 30 June 2009, the Group's net cash inflow from operating activities amounted to RMB1,748.3 million (2008: RMB896.8 million). Net cash balances (cash and bank balances net of total bank loans) reached RMB2,865.4 million (31 December 2008: RMB1,313.3 million) as at 30 June 2009, indicating that the Group had a strong financial position and healthy cash flow.

As at 30 June 2009, the outstanding bank loans of the Group amounted to RMB842.8 million (31 December 2008: RMB1,728.7 million), of which RMB492.8 million (31 December 2008: RMB1,208.7 million) was repayable within one year and RMB350 million (31 December 2008: RMB520 million) was repayable beyond one year. Bank loans in the amount of RMB627.4 million (31 December 2008: RMB720.3 million) was fixed interest-bearing.

The total equity of the Group was RMB5,590.7 million as at 30 June 2009 (31 December 2008: RMB4,738 million). The debt-to-equity ratio (total bank loans over total equity) of the Group was 15.1% (31 December 2008: 36.5%) as at 30 June 2009. For the six months ended 30 June 2009, the Group's finance costs amounted to RMB47.92 million (2008: RMB14.28 million), representing approximately 0.4% of the Group's revenue (2008: 0.1%).

MARKET REVIEW

After the milk incident last year, a series of regulations and measures were introduced by the state and local governments in China to improve the structure of the dairy industry and ensure product safety. These regulations and measures included the "Food Safety Law of the People's Republic of China" (「食品安全法」), the "Regulation on the Supervision and Administration of the Quality and Safety of Dairy Products" (「乳品質量安全監督管理條例」), and the "Outlines of the Rectification and Revival of the Dairy Industry" (「奶業整頓和振興規劃綱要」). To assure quality and enhance consumers' confidence, China dairy industry continued to actively align with the state policies to improve its monitory system and testing provisions during the first half of 2009. At the concerted efforts of all parties, up and downstream of the industry chain, there are signs of recovery shown.

As a leading player, Mengniu continued to put consumer safety and health first. For a stable and healthy development of the industry, Mengniu has stepped up construction of large-scale dairy ranches, carried out stringent measures on product monitory, optimized an operational structure, helped hasten integration of the industry, and pushed for long-term assurance of dairy product safety in China.

BUSINESS REVIEW

With proven capability in product research and development (R&D), market development and business promotion, the Group was recognized again for its outstanding operational results. Mengniu ranked the 19th in the Report of the Global Dairy Companies 2009 issued by Rabobank Netherlands in July 2009, making it the first Chinese dairy company among the top 20 dairy enterprises in the world. In the "3rd China Brand Festival" held in Qingdao in August 2009, Mengniu received the "2009 China Brand Hua Pu Award" and was on the list of the "Top 25 Brands for the Year". Among events of its kind in the PRC, China Brand Festival is the largest and the one with the highest standard and the most influence.

Branding and Marketing

Featuring the theme of "Eating Right for Long-term Health" (「為明天儲蓄健康」) and riding on the slogan of "Every Day for Tomorrow" (「每一天，為明天」), the Group designed and presented a series of consumer activities. Among these activities, the "Excellent Breakfast Health Campaign of Mengniu Breakfast Milk" (「蒙牛早餐奶百分早餐健康行」) aimed at helping consumers understand that healthy and nutritious breakfast is the best source of energy every day, and milk is an indispensable element in any quality breakfast. The campaign has enhanced brand acceptance of ***MENGNIU*** *Breakfast Milk* as well as promoted the benefits of having milk as breakfast. In addition, the Group organized the "Mengniu NBA Ultimate Basketball Player" (「蒙牛NBA終極籃徒」) on TV to breed basketball stars. Apart from strengthening loyalty to the ***MENGNIU*** brand among teenager consumers, the event encouraged teenagers to drink milk and exercise every day that they would have a stronger body to meet challenges in the future.

Mengniu continued to win the appreciation of consumers and the market with its excellent quality products. For the third consecutive year, ***MENGNIU's** Milk Deluxe (特侖蘇)* was chosen as the exclusive dairy product serving to participants of the Boao Forum for Asia, yet winning Mengniu another well-deserved market commendation for its high-end dairy products.

Products

The Group continued to reinforce R&D of high-end functional products with focus on the female and children markets. It has launched various new quality products in these niche markets to meet the growing needs of consumers.

Liquid milk

Revenue of the liquid milk segment amounted to RMB10,287.5 million (2008: RMB11,800.5 million), accounting for 85% of the revenue of the Group as its major income source.

UHT milk

Revenue from UHT milk products reached RMB6,339.1 million (2008: RMB7,765 million), accounting for 61.6% of the revenue of the liquid milk segment. Apart from further upgrading the nutritional value and tastes of original product series like *Breakfast Milk (早餐奶)*, the Group introduced *Farm Milk (牧場奶)* which produced at large dairy ranches. The product immediately became a new market favorite. The *Xin Yang Dao (新養道)* series was developed with the needs of modern urban females for nutrition as well as fitness in mind. On the basis of *Xin Yang Dao Low-Lactose Milk (新養道低乳糖牛奶)*, the Group developed the *Xin Yang Dao Low-Lactose & Low-Sugar Milk (新養道低乳糖低糖牛奶)* that can allow consumers to take in a balanced mix of nutrients at lower calories. Furthermore, heeding the needs of children in the development stage, the Group continued to research and upgrade *Future Star (未來星)* products. The Group introduced the *Future Star Wisdom Milk for Children (未來星兒童牛奶智慧型)* that can promote vitality of brain cells in children and improve development of functions of the young brain, and the *Future Star Vitality Milk for Children (未來星兒童牛奶活力型)* to foster growth of the body and muscle development in children.

Milk beverages

Revenue of the milk beverages segment was RMB2,954 million (2008: RMB3,114.4 million), accounting for 28.7% of the revenue of the liquid milk segment. The Group added a new product *Fruit & Vegetable Suan Suan Ru (果蔬酸酸乳)* to the ***MENGNIU** Suan Suan Ru (蒙牛酸酸乳)* series. Containing pure fruit juice, compound vegetable juice, fresh milk, health-enhancing bacteria and various vitamins, the product has sparked a quest for nutrition among consumers. In addition, the Group introduced *Youyi C Active Lactic Acid Bacteria Beverage (優益C活性乳酸菌飲料)*. *Youyi C (優益C)* received the First Grade Award in the New Product Development（新產品開發一等獎）category from the Dairy Association of China (中國乳製品協會) in 2007. *Youyi C (優益C)* contains 10 billion active lactic acid bacteria per 100 ml, hence effectively promote intestinal health while filling the gap in the China high-end lactic acid bacteria beverage market.

Yogurt

Revenue of the yogurt segment totaled RMB994.4 million (2008: RMB921.1 million), accounting for 9.7% of the revenue of the liquid milk segment. The Group invested more resources in promoting *Champion (冠益乳)* that can enhance intestinal functions to satisfy the demand common among white-collar consumers. Aided by the "Love Sent from One Thousand Miles Afar" (「千里之外，速遞關愛」) activity, the Group was able to strengthen consumer understanding on the functions of *Champion (冠益乳)* products. At the same time, the Group successfully positioned a new product, *Grain Yogurt (穀物酸牛奶)*, as a high-end replacement of conventional meals, which contains coarse grains like oats, black rice and barley. Moreover, the Group also introduced *Red Jujube Yogurt (紅棗酸奶)* that meets mass consumer taste and boasts the function of boosting the vitality and replenishing blood of the human body. With *Red Jujube Yogurt (紅棗酸奶)* as the basic product, the Group aims to develop a product series called Yangsheng (養生系列).

Ice cream

Revenue of the ice cream segment amounted to RMB1,657.7 million (2008: RMB1,778.1 million), accounting for 13.7% of the revenue of the Group. The Group continued to promote its five ice cream series namely *Sui Bian, Mood for Green, Deluxe, Qu Zai* and *Ice+ (隨變、綠色心情、蒂蘭聖雪、趣仔及冰+)*. With "Ready-to-Change" as the theme, the Group organized the "Mengniu Sui Bian Who Dares to Sing" (「蒙牛隨變誰敢來歌唱」) campaign to build a "Trendy, Carefree, Pleasant and Youthful" image for its ice cream brands. For the *Qu Zai* series (*趣仔系列*) launched together with Disney, the Group developed two new products with strong appeals to children during the review period – *Yao Yao She (搖搖舌)* and *Tan Xian Qi Bing (探險奇冰)* that promise great taste and fun to children have gained the preference of young consumers.

Other dairy products

Revenue from other dairy products amounted to RMB152.4 million (2008: RMB123.8 million), accounting for 1.3% of the Group's revenue. The Group further defined milk powder products and launched items targeting specific age groups, such as *Milk Powder for Adults (成人奶粉)*.

Quality Control

The Group has spared no effort on quality control and is committed to setting up a long-term and comprehensive regulatory system that covers all processes and procedures in production. The system allows for food safety control and tracking starting at the dairy ranch to delivery of the products to consumers. Currently, each pack of Mengniu milk must go through 9 steps, including raw milk control, sterilization, germ-free transportation, testing of samples, etc. It also needs to pass through 36 checking points, including storage conditions control, flash effect confirmation, microelement examination, antibiotics test, etc. Last but not the least, it has to be tested for residual pesticides, additives, heavy metals, etc. with reference to 105 indicators to ensure the milk meets all safety requirements before it reaches the consumer.

Production and Operation

The Group continued to expand production capacity bringing it up to an aggregate of 5.74 million tons a year (December 2008: 5.57 million tons) as of June 2009.

The Group and Danisco has jointly set up the "Mengniu – Danisco Overseas R&D Center" to focus on development of highly effective and functional fermentation agents. Through embarking on advanced technologies for dairy production, the Group hopes to continuously provide technological support for the development of trend-setting and high-end functional products.

In addition, the Group will continue to implement fine cost controls on different operational areas including procurement, cost and equipment efficiency so as to keep enhancing its core competitiveness.

Joint Venture and Alliances

The Group continued to step up cooperation with partners and ally to create strategic alliances that boasts complementary strengths. The Group tightened the relationship with NBA and worked hard at combining the resources and brand advantages of NBA with ***MENGNIU***'s products during the period.

The Group secured capital injection from COFCO Limited ("COFCO"), a leading oil and food enterprise in China, and Hopu Investment Management Co., Ltd ("HOPU"), a reknown private equity fund, in July 2009 and the deal has brought resources from COFCO including industry experiences, global customer networks and a well-established food safety control system, etc. to share with and benefit from.

Industry Exchange

Upholding the philosophy of revitalizing the dairy industry of China, the Group has been active in drawing on its rich resources and strong operating networks to provide dairy ranches, smaller farms, milk collection centers and dairy farmers with technical services and management support so as to ensure together with industry peers the healthy development of the dairy industry. The "Mengniu Service Center for Designated Collection Centers" set up by the Group has a service network that covers a great number of milk source regions. These service centers provide milk collection centers repairing services round the clock with the aim to troubleshoot their technical problems at first instance. They also help to perform regular checks on them so as to identify potential problems and allow repair and maintenance in advance.

Social Responsibilities

As an excellent national brand, Mengniu is dedicated to fostering a harmonious society. During the review period, the "Milk Loving Care" campaign (「中國牛奶愛心行動」) continued nationwide. At the same time, the Group presented the "Send Joy and Love to the West" (「快樂傳中國西部遞愛心」) activity with the Milk Loving Care Foundation of China. The purpose of the activity is to set up of health service stations for remote villages in western China such as Sichuan and Tibet. Those stations can help to improve the medical provisions of remote villages and responsiveness of residents to sudden outbreak of diseases, and solve the insufficient medical support problems for the locals. Furthermore, the Group has continued to encourage voluntary blood donation through activities organized by the "Mengniu Emergency Blood Donation Team" (「蒙牛集團青年志願者應急獻血隊」) on an ongoing basis.

OUTLOOK

At the concerted effort of all parties in the China dairy industry, the industry was able to start on a healthy development and recovery was in sight in the first half of the year. Looking forward, the industry is going to focus on major areas of development including enabling large-scale breeding, integration of production and sales, optimization of processing deployment and standardization of the dairy industry.

As a pioneer in the industry, the Group will apply its advanced R&D technology and rich industrial experiences to push forward the standardization of product quality and production techniques, and strengthen the construction and management of collection centers. All these endeavourers are to enhance the overall standard and foster development of a modern dairy industry in the country.

Fully leverage the partnership with COFCO and draw on complementary strengths of each partner to boost domestic and overseas sales

With COFCO and HOPU having acquired their stakes in the Company in July 2009, the Group has been given strong leverages in areas including processing of agricultural products, food manufacturing and import and export of food products, where its partner COFCO has extensive experiences. Furthermore, it also has access to the COFCO's customer networks in and outside China, allowing it to speed up integration of supply and production chains, globalization of strategic resources utilization, internationalization of food safety monitoring systems. Thus in turns, the Group can improve the operational standards of its production processes, which will facilitate its match to become an international dairy enterprise.

Strengthen quality control and inspection system to ensure customers are provided with milk products safe to consume

At its relentless efforts, the Group has succeeded in raising the standard of its quality control system. Nevertheless, the Group will continue to employ advanced equipment by international standard to achieve automation of production from allocation of ingredients to sterilization of raw milk. It will also continue to conduct meticulous inspection on all procedures involving raw milk, supplementary ingredients, packaging and finished products in accordance with the highest local and international inspection and testing standards. The Group pledges to devote its full attention and its best efforts to ensuring its products are safe and reliable so that consumers can enjoy them with confidence.

Promote "standardization of ranches" to facilitate steady development of the China dairy industry

The Group always believes that "standardization of ranches" is a key measure to raise the standard of the dairy industry in China. In the future, the Group will continue to enhance cooperation with raw milk farmers and strengthen management and control over raw milk production. It will also work on breed improvement, prevention of diseases by vaccination, and providing training on modern breeding and rearing techniques to help milk station operators and farmers improve operational efficiency as well as assure the quality of raw milk. At the same time, the Group will continue to aid the fast development of small and medium ranches and encourage them to centralize rearing, and build up their scale for industrialization of dairy production, thereby lead the healthy development of the entire raw milk supply chain.

Continue to strengthen R&D of hi-tech value-added products to meet demand of customers for natural green products

The Group's R&D centers in China and overseas boast remarkable achievements and have continued to provide the Group with technologies and patented products in a timely manner. The Group will strengthen R&D of proprietary products with special focus on probiotics and functional products that can help consumers prevent certain health problems. By developing more nutritious and innovative products, ***MENGNIU*** hopes to tackle the hidden illnesses of people nowadays, so in turns to serve as the "refilling station" for daily nutrients of the consumers and work towards the goal of "Every Day is for Tomorrow".

Mengniu aims to be one of the leading dairy enterprises in the world. It has made it up to the 19th place of global dairy companies, which is encouraging. In the future, with its outstanding management team, brand advantages, and the strong support of COFCO, the Group sees its favorable position in the international market and has its products become the pride of the Chinese people. The Group is well prepared to provide its customers and the society with dairy products of ever better quality and which is safe to consume.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

The Group had approximately 21,500 employees in the Mainland China and Hong Kong as at 30 June 2009. Total staff costs during the period, excluding directors' fee, were approximately RMB625.2 million (2008: RMB559.8 million). The Group provided intensive training programs to staff members. Managers and technicians were offered opportunities to study abroad, attend training programs and visits that they might bring in advanced management skills to the Group. Furthermore, the Group updated all its employees on latest government policies relevant to the dairy industry and food safety regularly. Its managers are also entrusted with the responsibility of coaching new recruits as well as existing employees to instill in them enthusiasm towards work and a sense of belonging to the Group, thus enhanced the overall efficiency of employees.

CORPORATE GOVERNANCE

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.

The Board has reviewed the Company's corporate governance practices and is satisfied that the Company has been in compliance with all applicable code provisions set out in the CG Code during the six months ended 30 June 2009 in compliance with the CG Code.

Mr. Li Jianxin, an independent non-executive Director, an audit committee and a remuneration committee member of the Company passed away on 20 February 2009. Following the passing away of Mr. Li, the Company had only two independent non-executive Directors and two audit committee members and accordingly did not have the requisite minimum number of independent non-executive Directors and audit committee members (i.e. three) under the Listing Rules. The Company has appointed a suitable candidate, with effect on 1 May 2009, to fill the vacancy within the time period under the Listing Rules.

SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. The Directors have confirmed, following the specific enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2009.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities shares during the six months ended 30 June 2009.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the websites of the Company's investor relations at www.mengniuir.com and Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk. The interim report of the Company will be despatched to shareholders and available at the same websites in due course.

AUDIT COMMITTEE

The Audit Committee currently comprises three Non-executive Directors, two of whom are independent. The current committee members are Mr. Zhang Julin (chairman), Mr Jiao Shuge (alias Jiao Zhen) and Mr. Liu Fuchun.

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 2009.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the preliminary announcement of the Group's results for the six months ended 30 June 2009 have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's draft condensed consolidated financial statements for the period. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement.

APPRECIATION

The board would like to take this opportunity to express gratitude to our shareholders and the public for their continued support, and to all staff for their hard work and commitment.

By order of the Board of Directors
Yang Wenjun
Chief Executive Officer

Hong Kong, 8 September 2009

* *For identification purpose only*

As at the date of this announcement, the Executive Directors are Mr. Niu Gensheng, Mr. Yang Wenjun, Mr. Yao Tongshan and Mr. Bai Ying. The Non-executive Directors are Mr. Ning Gaoning, Mr. Jiao Shuge (alias Jiao Zhen) and Mr. Julian Juul Wolhardt, Mr. Yu Xubo, Mr. Ma Jianping, Mr. Fang Fenglei. The Independent Non-executive Directors are Mr. Zhang Julin, Mr. Liu Fuchun and Mr. Zhang Xiaoya.