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

Interim Report 2009

*For identification purposes only

Corporate Profile

China Mengniu Dairy Company Limited (Stock Code: 2319) and its subsidiaries (the "Group") manufacture and distribute quality dairy products in China. It is one of the leading dairy product manufacturers in China, with ***MENGNIU*** as its core brand. The Group's diversified products range include liquid milk products, such as UHT milk, milk beverages and yogurt, ice cream and other dairy products such as milk powder. In June 2009, the Group's annual production capacity reached 5.74 million tons.

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr NIU Gensheng
Mr YANG Wenjun
Mr SUN Yubin (resigned on 27 August 2009)
Mr YAO Tongshan
Mr BAI Ying

Non-Executive Directors

Mr NING Gaoning (appointed on 27 August 2009)
Mr JIAO Shuge (alias JIAO Zhen)
Mr Julian Juul WOLHARDT
Mr YU Xubo (appointed on 27 August 2009)
Mr MA Jianping (appointed on 27 August 2009)
Mr FANG Fenglei (appointed on 27 August 2009)

Independent Non-Executive Directors

Mr WANG Huaibao (resigned on 1 May 2009)
Mr ZHANG Julin
Mr LI Jianxin (passed away on 20 February 2009)
Mr LIU Fuchun (appointed on 1 May 2009)
Mr ZHANG Xiaoya (appointed on 1 May 2009)

SENIOR MANAGEMENT

Mr YAO Haitao
Ms ZHAO Yuanhua
Mr DING Sheng
Mr WU Jingshui
Mr LIU Weixing
Mr LU Jianjun
Mr KWOK Wai Cheong, Chris
(Qualified Accountant & Company Secretary)

STOCK CODE

Hong Kong Stock Exchange 2319

INVESTOR RELATIONS CONTACT

Mr KWOK Wai Cheong, Chris
Unit 1001, 10th Floor, Jubilee Centre
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

Maples Corporate Services
P.O. Box 309
Ugland House
Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman, KY1-1107
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

As to Cayman Islands Law
Maples and Calder Asia

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
Industrial Commercial Bank of China
BNP Paribas

AUDITORS

Ernst & Young

INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

Financial Highlights

	Unaudited For the six months ended 30 June 2009 RMB'000	2008 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.

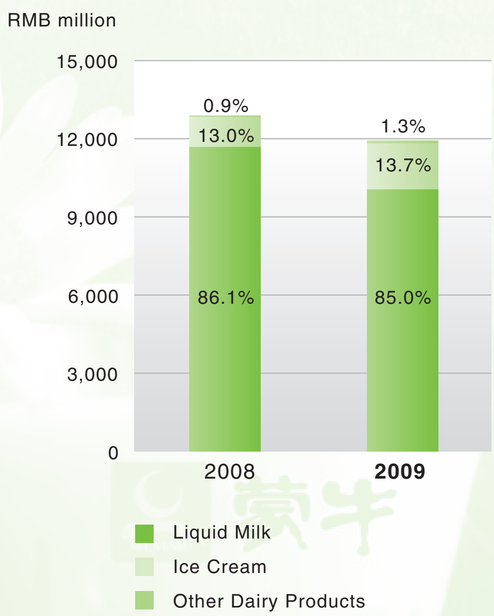
- The Group further expanded its production capacity and its aggregate annual production capacity reached 5.74 million tons as of June 2009.

- Mengniu was ranked the 19th in the 2009 Global Dairy Company list, and became the first Chinese 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.

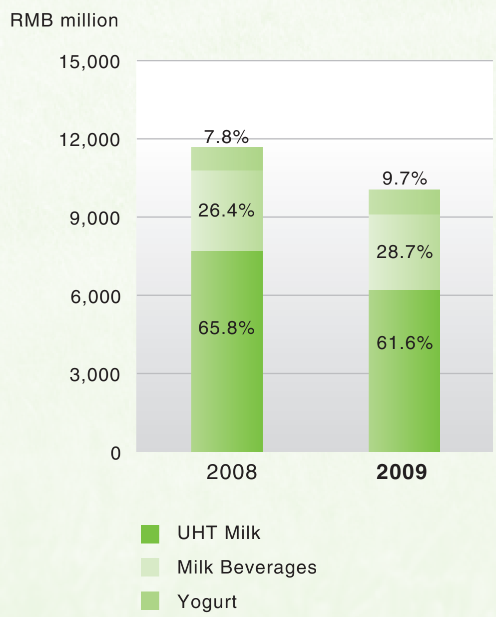
Revenue by Product Mix

For the six months ended 30 June



Product Mix in Liquid Milk Segment

For the six months ended 30 June



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%).

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 taste 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 category (新產品開發一等獎) 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 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.

Management Discussion and Analysis

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 nine 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 consumers.

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 have 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 Ventures and Alliances

The Group continued to step up cooperation with partners and allies 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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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 provide 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 the employees.

Report of the Directors

The Board (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 2009 ("interim financial statements").

INTERIM 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) and propose that the profit for the period be retained.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2009, the interests and short positions of the Directors and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company and associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the 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:

Long/Short positions in shares of the Company/Associated Corporation:

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	68,781,022(L)	4.40%
	The Company	Corporate Interest *(Note 1)*	256,499,966(L)	16.42%
	The Company	Interest under Concert Party Agreement *(Note 2)*	383,049,601(L)	24.53%
	Inner Mongolia Mengniu	Personal Interest	37,156,995(L)	4.63%
	Inner Mongolia Mengniu	Personal Interest	21,977,010(S)	2.74%
Yang Wenjun	The Company	Personal Interest	1,506,196(L)	0.10%
	The Company	Interest under Concert Party Agreement *(Note 2)*	383,049,601(L)	24.53%
	Inner Mongolia Mengniu	Personal Interest	2,404,453(L)	0.30%

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
Sun Yubin *(Note 3)*	The Company	Personal Interest	2,498,444(L)	0.16%
	The Company	Interest under Concert Party Agreement *(Note 2)*	383,049,601(L)	24.53%
	Inner Mongolia Mengniu	Personal Interest	3,988,453(L)	0.50%
Bai Ying	The Company	Personal Interest	148,837(L)	0.01%
	The Company	Interest under Concert Party Agreement *(Note 2)*	383,049,601(L)	24.53%
	Inner Mongolia Mengniu	Personal Interest	237,600(L)	0.03%

Notes:

1. 132,607,821 shares are held by Yinniu Milk Industry Limited ("Yinniu"), a substantial shareholder of the Company, which is controlled as to 81.3% by Xin Niu International Limited ("Xin Niu"). 123,892,145 shares are held by Jinniu Milk Industry Limited ("Jinniu"), a substantial shareholder of the Company, which is controlled as to 43.6% by Xin Niu. Niu Gensheng, by virtue of a proxy, has been delegated voting rights of the shares in Yinniu and Jinniu held by Xin Niu. Subsequent to the balance sheet date, certain of shares held by Yinniu and Jinniu were disposed of, details of the shares sales were disclosed in the Company's announcement dated 6 July 2009.

2. On 24 July 2008, Xin Niu, Yinniu, Jinniu, Niu Gensheng and a group of 21 individuals comprising Directors and management staff of the Group (the "Management Shareholders") (collectively, the "Concert Parties") entered into a concert party agreement (the "Concert Party Agreement") regarding their interest in the Company. The Concert Party Agreement constitutes an agreement under section 317 of the SFO. Details of the shareholding of the Concert Parties (who are not Directors of the Company) are set out in the section headed "Substantial Shareholders' Interests" below.

3. Subsequent to the balance sheet date, Sun Yubin was resigned from his position as an executive director with effect from 27 August 2009.

(L) Indicates a long position.
(S) Indicates a short position.

The Directors of the Company have been granted options under the Company's share option scheme, details of which are set out in the section "Share Option Scheme" below.

Saved as disclosed above, as at 30 June 2009, none of the Directors and the chief executive of the Company and their respective associates 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) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2009, the interests or short positions of substantial shareholders, other than the Directors or the chief executive of the Company whose interests and short positions of the Company are set out above, in the shares and underlying shares of the Company as recorded in the register required to be maintained under section 336 of the SFO were as follows:

Name of Substantial Shareholder	Number of Ordinary Shares		Percentage of Issued Share Capital
Xin Niu	256,499,966(L)	*(Note 1)*	16.42%
	383,049,601(L)	*(Note 2)*	24.53%
Yinniu	132,607,821(L)	*(Note 1)*	8.49%
	383,049,601(L)	*(Note 2)*	24.53%
Jinniu	123,892,145(L)	*(Note 1)*	7.93%
	383,049,601(L)	*(Note 2)*	24.53%
Deng Jiuqiang	383,049,601(L)	*(Note 2)*	24.53%
Lu Jun	383,049,601(L)	*(Note 2)*	24.53%
Sun Xianhong	383,049,601(L)	*(Note 2)*	24.53%
Wang Fuzhu	383,049,601(L)	*(Note 2)*	24.53%
Bai Jun	383,049,601(L)	*(Note 2)*	24.53%
Hou Jiangbin	383,049,601(L)	*(Note 2)*	24.53%
Qiu Lianjun	383,049,601(L)	*(Note 2)*	24.53%
Pang Kaitai	383,049,601(L)	*(Note 2)*	24.53%
Chu Xiuli	383,049,601(L)	*(Note 2)*	24.53%
Li Shurong	383,049,601(L)	*(Note 2)*	24.53%
Liu Xiaoling	383,049,601(L)	*(Note 2)*	24.53%
Wang Guisheng	383,049,601(L)	*(Note 2)*	24.53%
Wang Aisuo	383,049,601(L)	*(Note 2)*	24.53%
Wang Jishan	383,049,601(L)	*(Note 2)*	24.53%
Wang Jianbang	383,049,601(L)	*(Note 2)*	24.53%
Jiang Hong	383,049,601(L)	*(Note 2)*	24.53%
Zheng Wenping	383,049,601(L)	*(Note 2)*	24.53%
Ren Meicheng	383,049,601(L)	*(Note 2)*	24.53%

Name of Substantial Shareholder	Number of Ordinary Shares	Percentage of Issued Share Capital
UBS AG	123,207,978(L)	7.89%
	229,500(S)	0.01%
J P Morgan Chase & Co	109,334,544(L)	7.00%
	1,000,000(S)	0.06%
	106,124,344(P)	6.80%

Notes:

(1) 132,607,821 shares are held by Yinniu, a substantial shareholder of the Company, which is controlled as to 81.3% by Xin Niu. 123,892,145 shares are held by Jinniu, a substantial shareholder of the Company, which is controlled as to 43.6% by Xin Niu. Niu Gensheng, by virtue of a proxy, has been delegated voting rights of the shares in Yinniu and Jinniu held by Xin Niu. Subsequent to the balance sheet date, certain of shares held by Yinniu and Jinniu were disposed of, details of the shares sales were disclosed in the Company's announcement dated 6 July 2009.

(2) On 24 July 2008, Xin Niu, Yinniu, Jinniu, Niu Gensheng and the Management Shareholders entered into the Concert Party Agreement regarding their interest in the Company. The Concert Party Agreement constitutes an agreement under section 317 of the SFO and the aggregate number of shares under the Concert Party Agreement is 383,049,601, representing approximately 24.53% of the issued shares of the Company as at 30 June 2009. These shares are beneficially owned by Yinniu, Jinniu, Niu Gensheng, Yang Wenjun, Sun Yubin, Bai Ying (the shareholdings of these parties are set out in the table above or in the section headed "Directors' Interests, long and short position in shares, underlying shares and debentures") and Deng Jiuqiang (as to 2,753,636 shares), Lu Jun (as to 1,134,104 shares), Sun Xianhong (as to 1,118,060 shares), Wang Fuzhu (as to 704,721 shares), Bai Jun (as to 570,542 shares), Hou Jiangbin (as to 9,447,321 shares), Qiu Lianjun (as to 9,001,526 shares), Pang Kaitai (as to 2,232,558 shares), Chu Xiuli (as to 2,181,818 shares), Li Shurong (as to 2,029,598 shares), Liu Xiaoling (as to 2,029,598 shares), Wang Guisheng (as to 1,587,596 shares), Wang Aisuo (as to 2,282,170 shares), Wang Jishan (as to 2,946,976 shares), Wang Jianbang (as to 676,533 shares), Jiang Hong (as to 507,399 shares), Zheng Wenping (as to 9,894,289 shares) and Ren Meicheng (as to 2,516,691 shares).

(L) Indicates a long position.
(S) Indicates a short position.
(P) Indicates a lending position.

Saved as disclosed above, as at 30 June 2009, 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.

Report of the Directors

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. The following share options were outstanding under the Scheme during the period:

Name or Category of Participant	Number of share options Exercise: As at 1 January 2009	Exercised during the period	Lapsed during the period	As at 30 June 2009	Date of grant of share options	Exercise period of share options (both dates inclusive)	Exercise price of share options
							HK$
Executive directors							
Yang Wenjun[(1)]	4,561,000	–	(2,280,500)	2,280,500	9.11.2007	9.11.2009 to 8.11.2013[(3)]	32.24
	9,000,000	–	–	9,000,000	18.8.2008	18.8.2010 to 17.8.2014[(3)]	22.03
Sun Yubin[(1)]	1,875,000	–	(937,500)	937,500	9.11.2007	9.11.2009 to 8.11.2013[(3)]	32.24
	1,680,000	–	–	1,680,000	18.8.2008	18.8.2010 to 17.8.2014[(3)]	22.03
Yao Tongshan	1,659,000	–	(829,500)	829,500	9.11.2007	9.11.2009 to 8.11.2013[(3)]	32.24
	1,000,000	–	–	1,000,000	18.8.2008	18.8.2010 to 17.8.2014[(3)]	22.03
Bai Ying[(1)]	137,000	–	(34,250)	102,750	26.10.2006	26.10.2007 to 25.10.2012[(2)]	13.40
	2,277,000	–	(1,138,500)	1,138,500	9.11.2007	9.11.2009 to 8.11.2013[(3)]	32.24
	3,680,000	–	–	3,680,000	18.8.2008	18.8.2010 to 17.8.2014[(3)]	22.03
Employees in Aggregate[(1)]	5,315,401	(193,365)[(4)]	(1,563,353)	3,558,683	26.10.2006	26.10.2007 to 25.10.2012[(2)]	13.40
	32,760,000	–	(16,779,500)	15,980,500	9.11.2007	9.11.2009 to 8.11.2013[(3)]	32.24
	63,758,000	–	(1,561,000)	62,197,000	18.8.2008	18.8.2010 to 17.8.2014[(3)]	22.03
	127,702,401	(193,365)	(25,124,103)	102,384,933			

Notes:

(1) Xin Niu, Yinniu, Jinniu and the Management Shareholders entered into the Concert Party Agreement on 24 July 2008 and accordingly, Xin Niu, Yinniu, Jinniu and the Management Shareholders (who include Yang Wenjun, Sun Yubin and Bai Ying) were all deemed to be interested in an aggregate of 22,077,000 share options in the Company under the SFO as at 30 June 2009.

(2) The share options will be vested in four equal batches with 25% of the share options granted vesting on the first, second, third and forth anniversaries of the date of grant. 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.

(3) The share options will be vested in two equal batches with 50% of the share options granted vesting on the second and third anniversaries of the date of grant. 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.

(4) The weighted average closing price of the shares of the Company before the dates on which the options were exercised was HK$18.37.

During the six months ended 30 June 2009, no share options were granted under the Scheme.

Save as disclosed above, at no time during the reporting period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executive of the Company or their respective associates to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Save as disclosed above, none of the Directors or the chief executive (including their spouses and children under the age of 18) during the six months ended 30 June 2009, held any interest in, or were granted any right to subscribe for, the securities of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

FOREIGN CURRENCY RISK

The Group's businesses are principally located in the Mainland China and substantially all transactions are conducted in RMB, except for the purchases of certain machinery and equipment. As at 30 June 2009, substantially all of the Group's assets and liabilities were denominated in RMB except that cash and cash equivalents of approximately RMB100,873,000 (31 December 2008: RMB92,194,000) were denominated in United States dollars, Hong Kong dollars or Euro, and interest-bearing bank loans and long term payables aggregating to approximately RMB270,777,000 (31 December 2008: RMB282,674,000) 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 2009, the Group pledged bank deposits, bills receivable and certain property, plant and equipment aggregating approximately RMB656,718,000 (31 December 2008: RMB559,782,000). 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 26 and 27, respectively, to the interim financial statements.

SUBSEQUENT EVENTS

Details of subsequent events are set out in Note 29 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.

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.

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.

BOARD OF DIRECTORS

As at the date of this interim report, the Board currently comprises four Executive Directors, namely, Mr. Niu Gensheng, Mr. Yang Wenjun, Mr. Yao Tongshan and Mr. Bai Ying; six Non-executive Directors, namely, Mr. Ning Gaoning, Mr. Jiao Shuge (alias Jiao Zhen), Mr. Fang Fenglei, Mr. Yu Xubo, Mr. Ma Jianping and Mr. Julian Juul Wolhardt; and three Independent Non-executive Directors, namely, Mr. Zhang Julin, Mr. Zhang Xiaoya and Mr. Liu Fuchun.

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. The Directors have confirmed, following specific enquiries 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.

Report of the Directors

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

During the six months ended 30 June 2009, 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. Jiao Shuge 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.

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
Yang Wenjun
Chief Executive Officer

Hong Kong, 8 September 2009

Condensed Consolidated Income Statement

	Notes	Unaudited For the six months ended 30 June 2009 RMB'000	2008 RMB'000
Revenue	4	**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	4	**16,625**	82,828
Selling and distribution costs		**(1,942,467)**	(2,287,991)
Administrative expenses		**(376,279)**	(326,643)
Other operating expenses	5	**(86,688)**	(29,221)
Profit from operating activities		**844,231**	743,397
Interest income		**16,242**	16,757
Finance costs	7	**(47,916)**	(14,279)
Share of profits and losses of associates		**7,530**	4,013
Profit before tax	6	**820,087**	749,888
Income tax expense	8	**(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)	9		
– Basic		**0.424**	0.409
– Diluted		**0.424**	0.409

Condensed Consolidated Statement of Comprehensive Income

	Unaudited For the six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Profit for the period	**722,361**	687,801
Currency translation differences	**(513)**	(80,932)
Total comprehensive income for the period, net of tax	**721,848**	606,869
Attributable to:		
Equity holders of the Company	**661,385**	501,981
Non-controlling interests	**60,463**	104,888
	721,848	606,869

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	11	**4,995,367**	5,247,072
Construction in progress	12	**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	13	**784,288**	824,453
Bills receivable	14	**220,941**	64,778
Trade receivables	15	**475,669**	284,079
Prepayments and deposits		**164,021**	374,904
Other receivables		**114,761**	90,679
Pledged deposits	16	**169,925**	41,693
Cash and bank balances	16	**3,708,199**	3,041,965
		5,637,804	4,722,551
Assets of a disposal group classified as held for sale	17	**–**	378,951
		5,637,804	5,101,502
CURRENT LIABILITIES			
Trade payables	18	**1,850,438**	2,155,265
Bills payable	19	**1,119,996**	239,345
Deferred income		**13,130**	12,918
Accruals and customers' deposits	20	**682,015**	745,535
Other payables		**1,200,695**	1,048,792
Interest-bearing bank loans	21	**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	17	**–**	282,649
		5,476,049	5,766,106

Condensed Consolidated Statement of Financial Position

	Notes	Unaudited 30 June 2009 *RMB'000*	Audited 31 December 2008 *RMB'000*
NET CURRENT ASSETS/(LIABILITIES)		**161,755**	(664,604)
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,183,497**	5,549,169
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	21	**350,000**	520,000
Long term payables	22	**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	23	**163,154**	163,137
Retained earnings		**1,025,453**	363,555
Other reserves	24	**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

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company					
	Issued capital	Other reserves (Note 24)	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended 30 June 2009 (unaudited)						
At 1 January 2009	163,137	3,937,924	363,555	4,464,616	273,355	4,737,971
Profit for the period	–	–	661,898	661,898	60,463	722,361
Currency translation differences	–	(513)	–	(513)	–	(513)
Total comprehensive income for the period	–	(513)	661,898	661,385	60,463	721,848
Shares issued under equity-settled share option arrangements (Note 23)	17	2,267	–	2,284	–	2,284
Equity-settled share option arrangements	–	137,580	–	137,580	–	137,580
Dividends paid to minority shareholders	–	–	–	–	(925)	(925)
Deemed disposal of a subsidiary (Note 25)	–	–	–	–	(8,083)	(8,083)
At 30 June 2009	163,154	4,077,258	1,025,453	5,265,865	324,810	5,590,675

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company					
	Issued capital	Other reserves (Note 24)	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the six months ended 30 June 2008 (unaudited)						
At 1 January 2008	151,277	3,412,619	1,547,733	5,111,629	723,075	5,834,704
Profit for the period	–	–	582,913	582,913	104,888	687,801
Currency translation differences	–	(80,932)	–	(80,932)	–	(80,932)
Total comprehensive income for the period	–	(80,932)	582,913	501,981	104,888	606,869
Shares issued under equity-settled share option arrangements (Note 23)	16	2,055	–	2,071	–	2,071
Equity-settled share option arrangements	–	86,510	–	86,510	–	86,510
Dividends paid to minority shareholders	–	–	–	–	(39,872)	(39,872)
Dividends paid to equity holders of the Company (Note 10)	–	–	(187,667)	(187,667)	–	(187,667)
At 30 June 2008	151,293	3,420,252	1,942,979	5,514,524	788,091	6,302,615

Condensed Consolidated Statement of Cash Flows

		Unaudited	
		For the six months ended 30 June	
		2009	2008
	Note	*RMB'000*	*RMB'000*
Net cash inflow from operating activities		**1,748,270**	896,756
Net cash outflow from investing activities	a	**(1,685,797)**	(562,821)
Net cash outflow from financing activities		**(917,287)**	(291,670)
Net (decrease)/increase in cash and cash equivalents		**(854,814)**	42,265
Effect of foreign exchange rate changes, net		**(952)**	(41,494)
Cash and cash equivalents at 1 January	16	**2,218,965**	1,756,818
Cash and cash equivalents at 30 June	16	**1,363,199**	1,757,589

Note:

(a) The balances included the purchase of time deposits with original maturity of more than three months of RMB1,522,000,000 (six months ended 30 June 2008: RMB60,000,000) during the period.

Notes to Condensed Consolidated 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 in relation to financial instruments, and do not have material financial impact on the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

Significant accounting policies *(continued)*

- 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

Significant accounting policies *(continued)*

- 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. 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.

3. SEGMENT INFORMATION *(continued)*

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

3. **SEGMENT INFORMATION** *(continued)*

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

Notes to Condensed Consolidated 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:

	Notes	2009 *RMB'000* (Unaudited, for the six months ended 30 June)	2008 *RMB'000* (Unaudited, for the six months ended 30 June)
Revenue		**12,097,615**	13,702,409
Other income and gains:			
Government grants	(a)	**7,303**	7,194
Amortisation of deferred income	(b)	**6,521**	5,762
Foreign exchange gains, net		**–**	66,185
Others		**2,801**	3,687
		16,625	82,828
		12,114,240	13,785,237

Notes:

(a) 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.

(b) 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' estimated useful lives.

5. OTHER OPERATING EXPENSES

	Unaudited	
	For the six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Write-off of inventories	**31,273**	5,052
Write-down of inventories to net realisable value	**42,235**	8,399
Donations	**4,037**	10,899
Others	**9,143**	4,871
	86,688	29,221

6. PROFIT BEFORE TAX

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

	Unaudited	
	For the six months ended 30 June	
	2009	2008
	RMB'000	*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 disclosed in note 28)	**625,166**	559,769

7. 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

The amounts capitalised are the borrowing costs related to funds borrowed specifically for the purpose of obtaining qualifying assets. The interest rates on such capitalised borrowings during the six months ended 30 June 2008 varied from 3.53% to 6.97% per annum.

8. INCOME TAX EXPENSE

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

	Unaudited	
	For the six months ended 30 June	
	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".

9. 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*.

Notes to Condensed Consolidated Financial Statements

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(continued)*

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	2008
	RMB'000	*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

10. 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.

11. PROPERTY, PLANT AND EQUIPMENT

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

	Unaudited 2009	Unaudited 2008
	RMB'000	*RMB'000*
Carrying amount at 1 January	**5,247,072**	5,042,648
Additions	**52,113**	150,339
Transfers from construction in progress (Note 12)	**48,247**	289,969
Disposals	**(8,833)**	(4,507)
Deemed disposal of a subsidiary	**(10,673)**	–
Depreciation charge for the period	**(332,559)**	(309,200)
Carrying amount at 30 June	**4,995,367**	5,169,249

Certain property, plant and equipment of the Group with a net book value of approximately RMB386,793,000 (31 December 2008: RMB468,089,060) have been pledged to secure the long term payables of the Group (Note 22).

Notes to Condensed Consolidated Financial Statements

12. CONSTRUCTION IN PROGRESS

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

	Unaudited 2009 RMB'000	Unaudited 2008 RMB'000
Carrying amount at 1 January	**215,017**	313,439
Additions	**96,327**	359,431
Transfers to property, plant and equipment (Note 11)	**(48,247)**	(289,969)
Carrying amount at 30 June	**263,097**	382,901

13. INVENTORIES

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Raw materials	**422,076**	483,765
Finished goods	**362,212**	340,688
Total inventories at the lower of cost and net realisable value	**784,288**	824,453

14. 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

As at 30 June 2009, the bills receivable amounting to approximately RMB100,000,000 (31 December 2008: RMB50,000,000) were factored with recourse to financial institutions. The corresponding amounts were recorded as short term bank loans (Note 21).

The amounts due from associates of approximately RMB36,960,000 (31 December 2008: RMB488,000) and an amount due from a jointly-controlled entity of approximately RMB8,578,000 (31 December 2008: nil) are included in the above balances.

15. 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

The amounts due from associates of approximately RMB228,211,000 (31 December 2008: RMB137,244,000) and an amount due from a jointly-controlled entity of approximately RMB3,511,000 (31 December 2008: RMB9,257,000) 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.

16. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	Unaudited 30 June 2009 *RMB'000*	Audited 31 December 2008 *RMB'000*
Cash and cash equivalents	**1,363,199**	2,218,965
Pledged deposits	**169,925**	41,693
Time deposits with original maturity of more than three months	**2,345,000**	823,000
	3,878,124	3,083,658
Less: Deposits pledged for banking facilities (Note 19 and Note 21)	**(169,925)**	(41,693)
Cash and bank balances	**3,708,199**	3,041,965

17. DISPOSAL OF A SUBSIDIARY ACQUIRED WITH A VIEW FOR RESALE

On 5 September 2008, with a view for resale within one year, the Company acquired the entire equity interests of AustDairy Limited (hereafter "AustDairy"), an investment company whose net assets primarily comprised a 70% equity interest in Inner Mongolia Mengniu AustAsia Model Dairy Farm Company Limited (hereafter "AustAsia"). Prior to the acquisition, AustAsia was a 30% associate indirectly held by Inner Mongolia Mengniu Dairy (Group) Company Limited (hereafter "Inner Mongolia Mengniu"), a subsidiary of the Company. The subsidiary was acquired for the purpose of business reorganisation of the Group. By the end of 2008, AustDairy and Inner Mongolia Mengniu entered into equity transfer agreements with a third party to sell 70% and 30% equity interests in AustAsia, respectively. As at 31 December 2008, the net assets of AustAsia have been classified as a disposal group held for sale and as a discontinued operation in the consolidated financial statements.

The disposal of the subsidiary was completed during the current period. The loss associated with the discontinued operation amounted to RMB407,000 for the period.

18. 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

An amount due to an associate of approximately RMB6,499,000 (31 December 2008: RMB306,000) 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 and non-interest-bearing.

19. 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

Except for an aggregate balance of approximately RMB425,597,000 (31 December 2008: RMB161,528,000) secured by the pledge of certain of the Group's deposits amounting to RMB122,176,000 (31 December 2008: RMB39,139,000), bills payable are unsecured. The above balances are non-interest-bearing.

20. ACCRUALS AND CUSTOMERS' DEPOSITS

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Advances from customers	**555,634**	609,639
Salary and welfare payables	**126,381**	135,896
	682,015	745,535

The amounts due to associates of approximately RMB199,134,000 (31 December 2008: RMB87,278,000) are included in the above balances. The balances are unsecured, non-interest-bearing and are repayable on demand.

21. INTEREST-BEARING BANK LOANS

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Short term bank loans, secured	**143,409**	50,000
Short term bank loans, unsecured	**349,399**	1,158,660
Long term bank loans, unsecured	**350,000**	520,000
	842,808	1,728,660

As at 30 June 2009, short term bank loans of approximately RMB100,000,000 (31 December 2008: RMB50,000,000) and RMB43,409,000 (31 December 2008: nil) were secured by certain bills receivable of the Group (Note 14) and pledged deposits (Note 16), respectively.

During the six months ended 30 June 2009, the Group obtained new bank loans amounting to approximately RMB593,381,000 (six months ended 30 June 2008: RMB71,073,000) and repaid bank loans of approximately RMB1,479,227,000 (six months ended 30 June 2008: RMB56,394,000).

During the six months ended 30 June 2009, the annual interest rates of the short term bank loans and the long term bank loans varied from 1.18625% to 6.93% and from 4.86% to 6.318% (six months ended 30 June 2008: varied from 6.42% to 6.57% and from 3% to 6.97%), respectively. As at 30 June 2009, the Group's interest-bearing bank loans were denominated in Renminbi, except for loans of approximately US$12,832,000 (equivalent to approximately RMB87,748,000) (31 December 2008: US$4,925,000) denominated in United States dollars.

21. INTEREST-BEARING BANK LOANS *(continued)*

The repayment schedule of the bank loans is as follows:

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Within 1 year	**492,808**	1,208,660
1 – 2 years	**200,000**	400,000
2 – 5 years	**150,000**	120,000
Total interest-bearing bank loans	**842,808**	1,728,660
Less: Amount due within 1 year included in current liabilities	**(492,808)**	(1,208,660)
	350,000	520,000

22. 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 2009 RMB'000	Audited 31 December 2008 RMB'000
Within 1 year	**134,483**	168,795
1 – 2 years	**50,526**	84,910
2 – 5 years	**13,659**	20,254
Over 5 years	**1,650**	2,824
Total long term payables	**200,318**	276,783
Less: Amount due within 1 year included in current liabilities under other payables	**(134,483)**	(168,795)
	65,835	107,988

Certain long term payables are secured by the Group's property, plant and equipment (Note 11).

23. SHARE CAPITAL

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Authorised:		
3,000,000,000 ordinary shares of HK$0.1 each	**319,235**	319,235

	Note	Number of ordinary shares '000	RMB'000
Issued and fully paid:			
At 1 January 2009 (Audited)		**1,561,640**	**163,137**
Shares issued under equity-settled share option arrangements	(a)	**194**	**17**
At 30 June 2009 (Unaudited)		**1,561,834**	**163,154**
At 1 January 2008 (Audited)		1,426,120	151,277
Shares issued under equity-settled share option arrangements	(a)	176	16
At 30 June 2008 (Unaudited)		1,426,296	151,293

Note:

(a) The 193,365 (2008: 175,759) share options exercised during the period resulted in the issue of 193,365 (2008: 175,759) ordinary shares of the Company and new share capital of RMB17,000 (2008: RMB16,000) and share premium of RMB2,267,000 (2008: RMB2,055,000). The weighted average share price at the date of exercise for these options was HK$18.37 (2008: HK$24.82) per share.

Notes to Condensed Consolidated Financial Statements

24. 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 2009 (unaudited)						
At 1 January 2009	**2,897,558**	**232,020**	**768,829**	**(137,446)**	**176,963**	**3,937,924**
Shares issued under equity-settled share option arrangements (Note 23(a))	**2,267**	**–**	**–**	**–**	**–**	**2,267**
Equity-settled share option arrangements	**–**	**–**	**–**	**–**	**137,580**	**137,580**
Currency translation differences	**–**	**–**	**–**	**(513)**	**–**	**(513)**
At 30 June 2009	**2,899,825**	**232,020**	**768,829**	**(137,959)**	**314,543**	**4,077,258**

	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 2008 (unaudited)						
At 1 January 2008	2,473,172	232,020	720,918	(55,832)	42,341	3,412,619
Shares issued under equity-settled share option arrangements (Note 23(a))	2,055	–	–	–	–	2,055
Equity-settled share option arrangements	–	–	–	–	86,510	86,510
Currency translation differences	–	–	–	(80,932)	–	(80,932)
At 30 June 2008	2,475,227	232,020	720,918	(136,764)	128,851	3,420,252

25. DEEMED DISPOSAL OF A SUBSIDIARY

On 30 April 2009, Inner Mongolia Mengniu Fanyu Biotechnology Co., Ltd. (hereafter "Fanyu"), an indirectly owned subsidiary of the Company, issued additional shares of RMB40,000,000 to its existing and new shareholders, included in which was RMB5,200,000 in cash injected by Inner Mongolia Mengniu. The transaction resulted in the dilution of Inner Mongolia Mengniu's interest in Fanyu from 65% to 30%. As a consequence, Fanyu became an associate of the Company since then.

	Unaudited For the six months ended	
	2009	2008
	RMB'000	*RMB'000*
Net assets disposed of:		
Property, plant and equipment	**10,673**	–
Cash and bank balances	**1,088**	–
Trade receivables	**9,448**	–
Prepayments and other receivables	**2,689**	–
Inventories	**5,461**	–
Other intangible assets	**7,773**	–
Trade payables	**(208)**	–
Accruals and other payables	**(13,829)**	–
Non-controlling interests	**(8,083)**	–
	15,012	–
Cash consideration paid	**5,200**	–
Initial recognition of an associate	**(19,139)**	–
Loss on deemed disposal of a subsidiary	**1,073**	–

An analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary is as follows:

	2009	2008
	RMB'000	*RMB'000*
Cash consideration paid	**5,200**	–
Cash and bank balances disposed of	**1,088**	–
Net outflow of cash and cash equivalents in respect of the deemed disposal of a subsidiary	**6,288**	–

Notes to Condensed Consolidated Financial Statements

26. 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 the guarantees granted as at 30 June 2009 was approximately RMB59,393,800 (31 December 2008: RMB73,820,000). Approximately RMB59,393,800 (31 December 2008: RMB73,820,000) of the above guarantees are cross-guaranteed and secured by assets owned by the Suppliers who are independent third parties. Security under these counter-guarantees included property, dairy cattle and other assets owned by the Suppliers.

27. 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 2009 *RMB'000*	Audited 31 December 2008 *RMB'000*
Contracted, but not provided for	**133,475**	100,059

28. 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.

		Unaudited For the six months ended 30 June	
	Notes	2009 *RMB'000*	2008 *RMB'000*
Sale of liquid milk products to associates	(i)	**1,669,918**	1,985,441
Sale of ice cream products to associates	(i)	**303,637**	148,601
Sale of other dairy products to associates	(i)	**14,293**	9,745
Purchase of raw materials from an associate	(i)	**–**	70,320
Sale of raw materials to a jointly-controlled entity	(ii)	**24,232**	29,586
Purchase of ice cream products from an associate	(i)	**43,565**	55,305
Key management compensation	(iii)		
– directors' fees		**133**	120
– salaries and allowances		**2,958**	2,648
– retirement benefit contributions		**135**	135

28. RELATED PARTY TRANSACTIONS *(continued)*

Notes:

(i) The considerations were determined with reference to the then prevailing market prices and the prices charged to third parties.

(ii) Such transactions were conducted at cost, which approximated to the prevailing market price of the raw materials.

(iii) The key management compensation represented remuneration paid or payable to the directors and senior management of the Company.

(iv) In 2006, 2007 and 2008, certain directors and senior executives were granted share options in respect of their service to the Group under the share option schemes of the Company. In accordance with IFRS 2, share option benefits represent the fair value at the grant date of the share options issued under the share option schemes of the Company amortised to the consolidated income statement during the period disregarding whether the options have been vested/exercised or not. During the period, the share option benefits relating to the share options granted to these directors and senior executives were approximately RMB30,204,000 (2008: RMB26,760,000).

29. SUBSEQUENT EVENTS

On 5 July 2009, the Company entered into the subscription agreement with COFCO (Hong Kong) Limited and HOPU Investment Management Company Limited (collectively the "Subscribers") in connection with the proposed subscription of the 173,800,000 new ordinary shares of the Company with a par value of HK$0.1 each at HK$17.6 per share to the Subscribers. The net proceeds receivable by the Company under the share subscription were approximately HK$3,058,000,000. It is the Company's intention to use the proceeds from the share subscription to expand its existing operation or to invest in opportunities which may arise as a result of the upstream milk source consolidation and development in dairy product industry. Details of the subscription of new shares were disclosed in the Company's announcement dated 6 July 2009.

30. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 8 September 2009.

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 18 to 43 which comprises the condensed consolidated statement of financial position of China Mengniu Dairy Company Limited (the "Company") and its subsidiaries (the "Group") as at 30 June 2009 and the related condensed consolidated statements of income, comprehensive 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, 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

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8 September 2009