



# 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

# 2008



\* 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, including Hong Kong and Macau. It is one of the leading dairy product manufacturers in China, with **MENGNIU** as its core brand. The Group’s diverse products include liquid milk products, such as UHT milk, milk beverages and yogurt, ice cream and other dairy products such as milk powder. In June 2008, the Group operated 23 production bases with a combined annual production capacity of 5.5 million tons.

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## Contents

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Corporate Information	2
Financial Highlights	3
Management Discussion and Analysis	4
Report of the Directors	7
Condensed Consolidated Income Statement	13
Condensed Consolidated Balance Sheet	14
Condensed Consolidated Statement of Changes in Equity	16
Condensed Consolidated Statement of Cash Flows	18
Notes to Condensed Consolidated Financial Statements	19
Report on Review of Interim Financial Information	34

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr NIU Gensheng

Mr YANG Wenjun

Mr SUN Yubin

Mr YAO Tongshan

(appointed with effect from 15 July 2008)

Mr BAI Ying

(appointed with effect from 15 July 2008)

### Non-Executive Directors

Mr JIAO Shuge (alias JIAO Zhen)

Mr Julian Juul WOLHARDT

### Independent Non-Executive Directors

Mr WANG Huaibao

Mr ZHANG Julin

Mr LI Jianxin

## SENIOR MANAGEMENT

Mr BAI Jun

Mr LEI Yongsheng

Mr YAO Haitao

Ms ZHAO Yuanhua

Mr DING Sheng

Mr KWOK Wai Cheong, Chris

(Qualified Accountant & Company Secretary)

## STOCK CODE

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

M&C Corporate Service, P.O. Box 309 GT

Ugland House, South Church Street

George Town, Grand Cayman

Cayman Islands

## PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Cayman) Limited

Butterfield House

68 Ford Street

P.O. Box 705, George Town

Grand Cayman, Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

46th Floor, Hopewell Centre

183 Queen's Road East, Wanchai

Hong Kong

## LEGAL ADVISORS

As to Hong Kong Law

Norton Rose Hong Kong

As to Cayman Islands Law

Maples and Calder Asia

## PRINCIPAL BANKERS

Agricultural Bank of China

Bank of China

Industrial Commercial Bank of China

BNP Paribas

## AUDITORS

Ernst & Young

## INVESTOR RELATIONS CONSULTANT

Strategic Financial Relations (China) Limited

# Financial Highlights

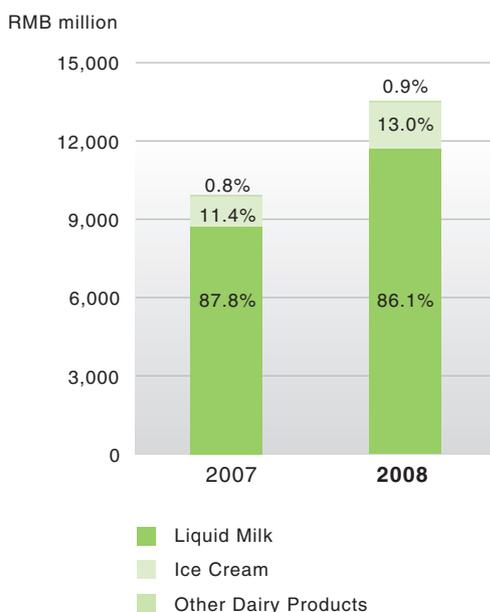
**Unaudited**  
**For the six months ended 30 June**  
**2008**                      **2007**  
**RMB'000**                      **RMB'000**

	<b>2008</b> <b>RMB'000</b>	<b>2007</b> <b>RMB'000</b>
Revenue	<b>13,702,409</b>	10,021,178
Profit attributable to equity holders of the Company	<b>582,913</b>	485,143
Net cash inflow from operating activities	<b>896,756</b>	1,412,391
Earnings per share (RMB)		
– Basic	<b>0.41</b>	0.35
– Diluted	<b>0.41</b>	0.35

- Through product mix optimization, high value-added products development and solid marketing strategies, the Group's revenue increased by 36.7% to RMB13,702.4 million, while profit attributable to equity holders of the Company amounted to RMB582.9 million.
- The Group's share in the liquid milk market in China in terms of sales revenue continued to rise as compared to 2007, topping the sales chart nationwide.
- In June 2008, the Group further expanded its production capacity and operated a total of 23 production bases with an annual production capacity of 5.5 million tons.

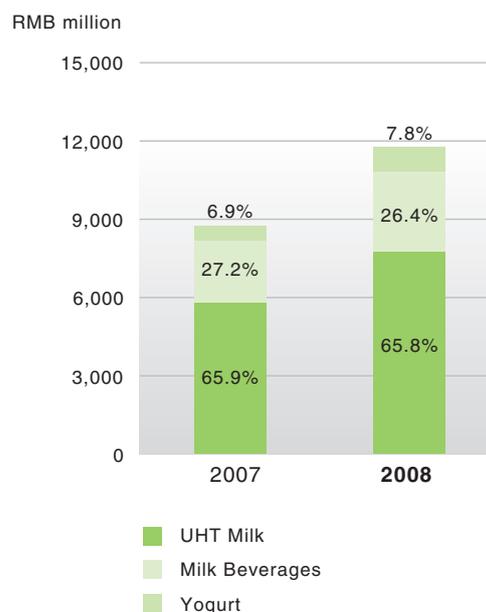
## Revenue by Product Mix

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 2008, the Group's revenue increased by 36.7% to RMB13,702.4 million. Profit attributable to equity holders of the Company amounted to RMB582.9 million, an increase of 20.2% when compared with the RMB485.1 million for the same period of 2007. Basic and diluted earnings per share were both RMB0.41 (2007: RMB0.35).

### Operating Expenses

In the first half of 2008, the Group's selling and distribution costs amounted to RMB2,288 million (2007: RMB1,658.7 million), representing an increase from 16.5% of the Group's revenue in the last corresponding period to 16.7% of that of the current period. In order to strengthen the **MENGNIU** brand, and effectively launch diversified and tailored marketing strategies, the percentage of advertising and promotion expenses to the Group's revenue for the period slightly grew from 8.9% in the same period last year to 9.2%.

Administrative and other operating expenses amounted to RMB355.9 million (2007: RMB229.2 million) for the first half of 2008, representing an increase from 2.3% of the Group's revenue in the same period last year to 2.6% for the current period. The percentage increase was mainly attributable to the amortisation of the fair value expenses arising from the issued share options.

### Profit from Operating Activities

The Group's EBITDA increased by 26.5% to RMB1,057.3 million (2007: RMB836.1 million) for the period; whilst EBITDA ratio amounted to 7.7% (2007: 8.3%). Excluding the fair value of the issued share options expenses, the EBITDA ratio during the period was comparable to that of 8.4% of the same period last year.

### Capital Structure, Liquidity and Financial Resources

For the six months ended 30 June 2008, the Group's net cash inflow from operating activities amounted to RMB896.8 million (2007: RMB1,412.4 million). The net cash balances (cash and bank balances net of total bank loans) reached RMB2,005.8 million (31 December 2007: RMB1,947.7 million) as at 30 June 2008, indicating that the Group was in a strong financial position and had a healthy cash flow.

As at 30 June 2008, outstanding bank loans of the Group amounted to RMB265.8 million (31 December 2007: RMB263.2 million), of which RMB161.5 million (31 December 2007: RMB183.2 million) was repayable within one year and RMB104.3 million (31 December 2007: RMB80 million) was repayable beyond one year. RMB124.9 million (31 December 2007: RMB149.6 million) of the bank loans was subject to fixed interest rates. The debt-to-equity ratio (total bank loans to total equity) of the Group was 4.2% (31 December 2007: 4.5%).

For the six months ended 30 June 2008, the Group's finance costs were RMB14.28 million (2007: RMB29.53 million), representing approximately 0.1% (2007: 0.3%) of the Group's revenue.

## MARKET REVIEW

With the change in consumption patterns in China, the product mix of the dairy industry of the country has also undergone a significant restructuring, with high-tech and functional products continue to grow in the competitive market.

# Management Discussion and Analysis

## BUSINESS REVIEW

### Products

The Group carried on its strategy of developing high-end products and enhancing market segmentation. Riding on its technological capabilities, in addition to improving existing products, the Group developed a number of new functional products that meet the market needs, and thus further optimized its product structure.

### Liquid milk

During the period under review, the revenue from the liquid milk segment was RMB11,800.5 million, increased by 34.1% compared with RMB8,803 million in the same period in 2007. The revenue of the liquid milk accounted for 86.1% of the revenue of the Group and liquid milk continued to be the Group's main source of income.

### UHT milk

Revenue from UHT milk products grew by 33.9% to RMB7,765 million as compared to RMB5,797.8 million in the same period last year, accounting for 65.8% of the revenue of the liquid milk segment. *Milk Deluxe OMP* (特侖蘇OMP) launched by the Group last year won the “New Product Development Award” (「創新產品獎」) at the SIAL International Food Products Exhibition organized by Expositum, which is the largest exhibition group in France and the 10th largest exhibition group in the world. This had made **MENGNU** to be the only Chinese dairy brand among all award winners. Furthermore, the new member of the *Milk Deluxe* series – *Milk Deluxe Organic Milk* (特侖蘇有機奶) – was among the first batch of organic and environmentally friendly products earning state certification. It was also selected as the exclusive milk beverage for the Boao Forum for Asia 2008.

### Milk beverages

Revenue from the milk beverages segment reached RMB3,114.4 million, increased by 29.9% and accounting for 26.4% of the revenue from liquid milk. The world's first milk beverage with real fruit pulps, *Fruit Milk Drink* (真果粒), launched by the Group last year, reported satisfactory sales shortly after launch. It had also won the “Country Award” (「中國國別金獎」) at the SIAL International Food Products Exhibition held this year. In addition, the Group continued to enhance the flavor and packaging of its products and introduced *Miao Miao Milk* (妙妙奶), a beverage containing probiotics. Complement with the innovative marketing activities, sales of milk beverages were effectively boosted.

### Yogurt

During the period under review, revenue from the yogurt segment increased by 51.5% to RMB921.1 million, accounting for 7.8% of the revenue of the liquid milk segment. To cope with rising market demand for yogurt, the Group put in effort in enhancement of product packaging, varieties and nutritional value.

### Ice cream

Revenue from the ice cream segment surged by 56.4% to RMB1,778.1 million, accounting for 13% of the revenue of the Group. The Group restructured the product segment according to the needs of different defined market segments, giving the products a brand image of “trendy, carefree, pleasant and youthful”. Probiotics and vitamin-rich fruit pulps were added in the trendy new products *Sui Bian Euro Roll* (隨便歐羅旋) and *Large Grain Yogurt Ice Cream* (大果粒酸奶冰淇淋) to enhance their nutritional value. Besides, a strong foundation was laid for the Group to promote the new positioning of ice cream as an “All-Season Healthy Food” (健康四季食品).

# Management Discussion and Analysis

## **Other dairy products**

After product restructure of the Group last year, the consolidation of other dairy products segment was almost completed. During the period under review, revenue from the segment grew by 51.6% to RMB123.8 million, accounting for 0.9% of the Group's revenue.

## **Production and Operation**

As of June 2008, the Group further expanded the production capacity and operated 23 (December 2007: 22) production bases with a combined annual production capacity of 5.50 million tons (December 2007: 4.78 million tons).

The Group's research institute, which was opened last year, specializing in development of product functions, applied technology and processing technology, made significant R&D achievements. Currently, the institute had completed the development of four types of yogurt drink and ice cream products respectively, and submitted 41 applications for product patent and 7 applications for technology patent, among which 17 applications have been approved. To enhance the R&D capabilities of the Group and strengthen exchange with overseas leading peers, the Group has set up workshops in the US, Japan, Singapore, France and New Zealand so that it will provide its home-base R&D center with information of the market and state-of-the-art technology in a timely manner.

## **PROSPECTS**

### **Driving growth in scale of raw milk ranches**

The Group will continue to use its global leading facilities and state-of-the-art technology to provide timely assistance to raw milk suppliers in milk cattle rearing, disease prevention and breeding, etc. In addition, as a key objective in its future plan, the Group will promote long-term development of raw milk ranches. This will give full support to build dedicated cattle rearing districts as well as large ranches, with the aim to help the country's milk cattle rearing operations to grow in scale and strength. By introducing systematic management and top-notch rearing technology to milk cattle ranches, the Group intends to improve operational efficiency of raw milk suppliers, thus, ensuring stable supply of high quality raw milk for the dairy industry in the country to reach a long-term "win-win" scenario.

## **HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES**

As at 30 June 2008, the Group had approximately 23,500 employees in the Mainland China and Hong Kong. Total staff costs during the period, excluding directors fee, were approximately RMB559.8 million (2007: RMB413.9 million). To enhance the quality and competence of employees, the Group provided various pre-job and on-the-job training programs to new recruits and existing employees on latest industry knowledge and technical and management skills. It also provided its managers and technicians with opportunities to attend training programs and overseas visits, exposing them to new perspectives and international management concepts which they can learn and apply in work. In addition, the Group also organized various activities during the period under review, which allowed the staff to have a better understanding of the Group's corporate culture, business concepts and mission. To motivate and reward employees, the Group offers competitive remuneration packages with performance-based bonuses and a share option scheme.

# 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 2008 (“interim financial statements”).

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: 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 2008, 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:

<b>Name of Director</b>	<b>Company/Name of Associated Corporation</b>	<b>Nature of Interest</b>	<b>Total Number of Ordinary Shares</b>	<b>Percentage of the Company’s/Associated Corporation’s Issued Share Capital</b>
Niu Gensheng	The Company	Personal Interest	68,781,022(L)	4.82%
	The Company	Corporate Interest (Note 1)	176,104,130(L)	12.35%
	The Company	Corporate Interest (Note 2)	137,395,836(L)	9.63%
	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)	0.11%
	Inner Mongolia Mengniu	Personal Interest	2,404,453(L)	0.30%
Sun Yubin	The Company	Personal Interest	2,498,444(L)	0.18%
	Inner Mongolia Mengniu	Personal Interest	3,988,453(L)	0.50%

# Report of the Directors

## Notes:

1. These shares are held by Yinniu Milk Industry Limited (“Yinniu”), a substantial shareholder of the Company, which is controlled as to approximately 80.2% by Xin Niu International Limited (“Xin Niu”). Niu Gensheng, by virtue of a proxy, has been delegated voting rights to the shares in Yinniu held by Xin Niu. The proxy arrangement has been in effect since 29 October 2007.
  2. These shares are held by Jinniu Milk Industry Limited (“Jinniu”), a substantial shareholder of the Company, which is controlled as to 38.6% by Xin Niu. Niu Gensheng, by virtue of a proxy, has been delegated voting rights to the shares in Jinniu held by Xin Niu. The proxy arrangement has been in effect since 29 October 2007.
- (L) Indicates a long position.  
(S) Indicates a short position.

Certain Directors 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 2008, 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 2008, 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:

<b>Name of Substantial Shareholder</b>	<b>Number of Ordinary Shares</b>	<b>Percentage of Issued Share Capital</b>
Xin Niu (Note 1)	313,499,966(L)	21.98%
Yinniu (Note 2)	176,104,130(L)	12.35%
Jinniu (Note 3)	137,395,836(L)	9.63%
UBS AG	115,991,251(L) 1,835,002(S)	8.13% 0.13%
JP Morgan Chase & Co	83,284,248(L) 1,259,000(S) 77,820,944(P)	5.84% 0.09% 5.46%
Commonwealth Bank of Australia	83,315,000(L)	5.84%
The Northern Trust Company (ALA)	71,851,735(P)	5.04%

# Report of the Directors

## Notes:

- These shares are held by Yinniu and Jinniu, both substantial shareholders of the Company themselves. Xin Niu controls 80.2% and 38.6% of voting rights in Yinniu and Jinniu, respectively.
  - The shares in Yinniu are held by (i) 4 (comprising Deng Jiuqiang, Hou Jiangbin, Xie Qiuxu and Pang Kaitai) of the founding individuals of Inner Mongolia Mengniu Dairy (Group) Company Limited ("Inner Mongolia Mengniu"), (ii) other employees of the Group and (iii) Xin Niu, which acquired 14,343 shares from Niu Gensheng and 27,705 shares from Xie Qiuxu on 29 October 2007, resulting in it having an aggregate shareholding of approximately 80.2% of all issued shares in Yinniu.
  - The shares in Jinniu are held by (i) 6 (comprising Deng Jiuqiang, Lu Jun, Sun Yubin, Yang Wenjun, Sun Xianhong and Qiu Lianjun) of the founding individuals of Inner Mongolia Mengniu, (ii) other employees of the Group and (iii) Xin Niu, which acquired 24,331 shares, approximately 38.6% of all issued shares in Jinniu from Niu Gensheng on 29 October 2007.
- (S) Indicates a short position.  
(L) Indicates a long position.  
(P) Indicates a lending position.

Saved as disclosed above, as at 30 June 2008, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register maintained under section 336 of the SFO.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The following share options were outstanding under the Scheme during the period:

Name or category of participant	Number of share options				Date of grant of share options	Exercise period of share options (both dates inclusive)	Exercise price of share options
	As at 1 January 2008	Exercised during the period	Lapsed during the period	As at 30 June 2008			
<i>HK\$</i>							
<b>Executive directors</b>							
Yang Wenjun	4,561,000	–	–	4,561,000	9.11.2007	9.11.2009 to 8.11.2013 <sup>(b)</sup>	32.24 <sup>(c)</sup>
Sun Yubin	1,875,000	–	–	1,875,000	9.11.2007	9.11.2009 to 8.11.2013 <sup>(b)</sup>	32.24 <sup>(c)</sup>
<b>Employees (other than directors) in aggregate</b>							
	6,254,561	(175,759) <sup>(e)</sup>	(316,240)	5,762,562	26.10.2006	26.10.2007 to 25.10.2012 <sup>(a)</sup>	13.40 <sup>(d)</sup>
	38,169,000	–	(591,000)	37,578,000	9.11.2007	9.11.2009 to 8.11.2013 <sup>(b)</sup>	32.24 <sup>(c)</sup>
	50,859,561	(175,759)	(907,240)	49,776,562			

# Report of the Directors

- (a) The share options will be vested in four equal batches with 25% of the share options granted vesting on the first, second, third and fourth 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.
- (b) 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.
- (c) The closing price of shares of the Company immediately before the date of granted (i.e. 9 November 2007) was HK\$32.3.
- (d) The closing price of shares of the Company immediately before the date of granted (i.e. 26 October 2006) was HK\$13.32.
- (e) The weighted average closing price of the shares of the Company before the dates on which the options were exercised was HK\$24.82.

During the six months ended 30 June 2008, 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 2008, 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 and sales of dairy products to Hong Kong, Macau and other overseas countries. As at 30 June 2008, substantially all of the Group's assets and liabilities were denominated in RMB except that cash and cash equivalents of approximately RMB516,501,000 (31 December 2007: RMB758,562,000) were denominated in United States dollars and Hong Kong dollars, and interest-bearing bank loans and long term payables aggregating to approximately RMB416,139,000 (31 December 2007: RMB350,728,000) were denominated in United States dollars. Management has set up procedures to periodically review and monitor the foreign currency risk exposure.

# Report of the Directors

## PLEDGE OF ASSETS

As at 30 June 2008, the Group pledged bank deposits, bills receivable and certain property, plant and equipment aggregating approximately RMB772,071,000 (31 December 2007: RMB766,584,000). Details are set out in the respective notes to the interim financial statements.

## CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

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

## SUBSEQUENT EVENTS

Details of subsequent events are set out in Note 27 to the interim financial statements.

## SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company has been temporarily suspended since 17 September 2008 pending the release of an announcement by the Company regarding recent news articles concerning certain of its dairy products which is price-sensitive in nature.

## 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 2008.

## BOARD OF DIRECTORS

As at the date of this interim report, the Board currently comprises five Executive Directors, namely, Mr. Niu Gensheng, Mr. Yang Wenjun, Mr. Sun Yubin, Mr. Yao Tongshan and Mr. Bai Ying; two Non-executive Directors, namely, Mr. Jiao Shuge (alias Jiao Zhen) and Mr. Julian Juul Wolhardt; and three Independent Non-executive Directors, namely, Mr. Wang Huaibao, Mr. Zhang Julin and Mr. Li Jianxin.

# Report of the Directors

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## 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 2008.

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

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## AUDIT COMMITTEE

The Audit Committee comprises three Non-executive Directors, two of whom are independent. The current committee members are Mr. Zhang Julin (chairman), Mr. Li Jianxin and Mr. Jiao Shuge. The Audit Committee has reviewed with the Company's management and the external auditors, the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters, including the review of the unaudited interim financial statements for the six months ended 30 June 2008.

## INVESTOR RELATIONS AND COMMUNICATIONS

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

By order of the Board of Directors

**Niu Gensheng**

*Chief Executive Officer*

Hong Kong, 19 September 2008

# Condensed Consolidated Income Statement

	Notes	Unaudited	
		For the six months ended 30 June	
		2008	2007
		RMB'000	RMB'000
<b>Revenue</b>	4	<b>13,702,409</b>	10,021,178
Cost of sales		(10,397,985)	(7,569,947)
<b>Gross profit</b>		<b>3,304,424</b>	2,451,231
Other income and gains	4	<b>82,828</b>	31,895
Selling and distribution costs		(2,287,991)	(1,658,650)
Administrative expenses		(326,643)	(213,776)
Other operating expenses		(29,221)	(15,428)
<b>Profit from operating activities</b>		<b>743,397</b>	595,272
Interest income		<b>16,757</b>	19,698
Finance costs	6	(14,279)	(29,532)
Share of profits of associates		<b>4,013</b>	3,543
<b>Profit before tax</b>	5	<b>749,888</b>	588,981
Income tax expense	7	(62,087)	(14,873)
<b>Profit for the period</b>		<b>687,801</b>	574,108
Attributable to:			
Equity holders of the Company		<b>582,913</b>	485,143
Minority interests		<b>104,888</b>	88,965
		<b>687,801</b>	574,108
<b>Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB per share)</b>	8		
– Basic		<b>0.41</b>	0.35
– Diluted		<b>0.41</b>	0.35

# Condensed Consolidated Balance Sheet

	Notes	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	5,169,249	5,042,648
Construction in progress	11	382,901	313,439
Other intangible assets		31,278	31,404
Land use rights		250,076	228,739
Interests in associates		50,728	57,573
Available-for-sale investments		17,316	17,316
Goodwill	12	199,143	199,143
Deferred tax assets		6,302	6,302
Other financial assets		17,486	21,139
		<b>6,124,479</b>	<b>5,917,703</b>
<b>CURRENT ASSETS</b>			
Inventories	13	1,347,274	877,443
Bills receivable	14	237,236	114,882
Trade receivables	15	457,170	261,365
Prepayments and deposits		150,955	214,364
Other receivables		66,023	40,198
Pledged deposits	16	13,902	44,506
Cash and bank balances	16	2,271,589	2,210,818
		<b>4,544,149</b>	<b>3,763,576</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	17	1,909,627	1,315,395
Bills payable	18	112,716	259,065
Deferred income		12,318	11,752
Accruals and customers' deposits	19	453,110	544,662
Other payables		1,203,523	1,013,171
Interest-bearing bank loans	20	161,482	183,156
Other loans		1,385	36,004
Income tax payable		30,040	185
		<b>3,884,201</b>	<b>3,363,390</b>
<b>NET CURRENT ASSETS</b>		<b>659,948</b>	<b>400,186</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>6,784,427</b>	<b>6,317,889</b>

# Condensed Consolidated Balance Sheet

	Notes	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans	20	104,306	80,000
Long term payables	21	201,458	224,192
Deferred income		176,048	178,993
		<b>481,812</b>	<b>483,185</b>
<b>NET ASSETS</b>			
		<b>6,302,615</b>	<b>5,834,704</b>
<b>EQUITY</b>			
Equity attributable to equity holders of the Company			
Issued capital	22	151,293	151,277
Retained earnings		1,942,979	1,547,733
Other reserves	23	3,420,252	3,412,619
		<b>5,514,524</b>	<b>5,111,629</b>
Minority interests		788,091	723,075
<b>TOTAL EQUITY</b>			
		<b>6,302,615</b>	<b>5,834,704</b>

# Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company					Minority interests	Total equity
	Issued capital	Other reserves	Retained earnings	Total			
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>		
<b>For the six months ended 30 June 2008 (unaudited)</b>							
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 income and expense for the period	–	(80,932)	582,913	501,981	104,888	606,869	
Shares issued under equity-settled share option arrangements (Note 22)	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 9)	–	–	(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 Changes in Equity

	Attributable to equity holders of the Company				Minority interests	Total equity
	Issued capital	Other reserves (Note 23)	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>For the six months ended 30 June 2007</b>						
<b>(unaudited)</b>						
At 1 January 2007	145,573	1,859,469	993,822	2,998,864	633,816	3,632,680
Profit for the period	–	–	485,143	485,143	88,965	574,108
Currency translation differences	–	(15,755)	–	(15,755)	–	(15,755)
Total income and expense for the period	–	(15,755)	485,143	469,388	88,965	558,353
Issue of shares (Note 22)	5,682	1,342,547	–	1,348,229	–	1,348,229
Equity-settled share option arrangements	–	7,785	–	7,785	–	7,785
Acquisition of minority interests (Note 12)	–	–	–	–	(50,806)	(50,806)
Dividends paid to minority shareholders	–	–	–	–	(32,883)	(32,883)
Dividends paid to equity holders of the Company (Note 9)	–	–	(156,020)	(156,020)	–	(156,020)
At 30 June 2007	151,255	3,194,046	1,322,945	4,668,246	639,092	5,307,338

# Condensed Consolidated Statement of Cash Flows

	Notes	Unaudited	
		For the six months ended 30 June	
		2008	2007
		RMB'000	RMB'000
Net cash inflow from operating activities		896,756	1,412,391
Net cash outflow from investing activities		(562,821)	(824,462)
Net cash (outflow)/inflow from financing activities		(291,670)	1,057,247
Net increase in cash and cash equivalents		42,265	1,645,176
Effect of foreign exchange rate changes, net		(41,494)	–
Cash and cash equivalents at 1 January	16	1,756,818	1,180,058
Cash and cash equivalents at 30 June	16	1,757,589	2,825,234

# 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 2008 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 2007.

### 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 2007, except for the adoption of the following new interpretations as of 1 January 2008. The adoption of these interpretations did not have any material impact on the financial position or operation results of the Group or the disclosures in the unaudited interim condensed consolidated financial statements for the current period.

- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*  
This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instrument, to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. This interpretation also addresses the accounting for share-based payment transactions involving two or more entities within the Group. The adoption of this Interpretation did not have any impact on the financial position or performance of the Group.
- IFRIC 12 *Service Concession Arrangements*  
This interpretation requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. It also addresses how an operator applies existing IFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group has no such arrangements, the adoption of this interpretation did not have any impact on the financial position and performance of the Group.
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*  
This Interpretation provides guidance on how to assess the limit on the amount of a refund or a reduction in future contribution in relation to a defined benefit scheme that can be recognised as an asset under IAS 19 *Employee Benefits*. As the Group has no defined benefit schemes, the Interpretation had no impact on the financial position or performance of the Group.

# Notes to Condensed Consolidated Financial Statements

## 3. SEGMENT INFORMATION

The Group comprises the following business segments:

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

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

The following tables present the revenue, results and certain assets and liabilities information for the Group’s business segments:

	Unaudited	
	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Segment revenue:		
Liquid milk	11,800,469	8,802,955
Ice cream	1,778,123	1,136,555
Other dairy products	123,817	81,668
	<b>13,702,409</b>	<b>10,021,178</b>
Segment results:		
Liquid milk	741,794	628,298
Ice cream	84,050	60,630
Other dairy products	(1,229)	(10,403)
	<b>824,615</b>	<b>678,525</b>
Unallocated corporate expenses	<b>(81,218)</b>	<b>(83,253)</b>
Profit from operating activities	<b>743,397</b>	595,272
Interest income	16,757	19,698
Finance costs	(14,279)	(29,532)
Share of profits of associates	4,013	3,543
Profit before tax	<b>749,888</b>	588,981
Income tax expense	<b>(62,087)</b>	(14,873)
Profit for the period	<b>687,801</b>	574,108

# Notes to Condensed Consolidated Financial Statements

## 3. SEGMENT INFORMATION (continued)

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Segment assets:		
Liquid milk	7,910,888	7,042,655
Ice cream	1,176,576	966,557
Other dairy products	241,584	230,324
Unallocated corporate assets	2,528,179	2,844,220
Eliminations	(1,188,599)	(1,402,477)
<b>Total assets</b>	<b>10,668,628</b>	<b>9,681,279</b>
Segment liabilities:		
Liquid milk	3,963,790	3,920,366
Ice cream	652,028	470,352
Other dairy products	177,414	165,928
Unallocated corporate liabilities	761,380	692,406
Eliminations	(1,188,599)	(1,402,477)
<b>Total liabilities</b>	<b>4,366,013</b>	<b>3,846,575</b>

## 4. REVENUE, OTHER INCOME AND GAINS

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

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

		Unaudited For the six months ended 30 June 2008 RMB'000	2007 RMB'000
Revenue	Notes	13,702,409	10,021,178
Other income and gains:			
Government grants	(a)	7,194	11,920
Amortisation of deferred income	(b)	5,762	3,944
Foreign exchange gains, net		66,185	13,670
Others		3,687	2,361
		<b>82,828</b>	<b>31,895</b>
		<b>13,785,237</b>	<b>10,053,073</b>

# Notes to Condensed Consolidated Financial Statements

## 4. REVENUE, OTHER INCOME AND GAINS (continued)

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. PROFIT BEFORE TAX

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

	Unaudited	
	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Amortisation of land use rights	2,665	2,159
Amortisation of other intangible assets	2,006	1,296
Cost of inventories sold	10,397,985	7,569,947
Depreciation of property, plant and equipment	309,200	237,325
Employee benefit expense (excluding directors' fees as disclosed in Note 26)	559,769	413,873

## 6. FINANCE COSTS

	Unaudited	
	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	9,818	23,641
Interest on long term payables	6,985	6,733
Less: Amounts capitalised	(2,524)	(842)
	14,279	29,532

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% (six months ended 30 June 2007: 5.51% to 6.3%) per annum.

# Notes to Condensed Consolidated Financial Statements

## 7. INCOME TAX EXPENSE

- (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 the "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" under which these subsidiaries would be exempted from CIT for the first two profitable years, followed by a 50% reduction for the next three profitable years.

## 8. 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 diluted 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 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	
	2008	2007
	RMB'000	RMB'000
Profit attributable to ordinary equity holders of the Company	582,913	485,143
	Number of shares	Number of shares
	(in thousand)	(in thousand)
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation	1,426,173	1,391,591
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the period	496	386
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	1,426,669	1,391,977

# Notes to Condensed Consolidated Financial Statements

## 9. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: nil). During the six months ended 30 June 2008, the Company declared and paid final dividends of RMB0.1315 (six months ended 30 June 2007: RMB0.1094) per share as proposed for the year ended 31 December 2007 to the shareholders of the Company.

## 10. PROPERTY, PLANT AND EQUIPMENT

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

	Unaudited 2008 RMB'000	Unaudited 2007 RMB'000
Carrying amount at 1 January	5,042,648	4,160,283
Additions	150,339	289,785
Transfers from construction in progress (Note 11)	289,969	353,609
Disposals	(4,507)	(13,509)
Depreciation charge for the period	(309,200)	(237,325)
Carrying amount at 30 June	5,169,249	4,552,843

Certain property, plant and equipment of the Group with a net book value of approximately RMB690,169,000 (31 December 2007: RMB644,828,000) have been pledged to secure the long term payables of the Group (Note 21).

As at the date of this report, the Group is in the process of applying for registration of the ownership certificates for certain of its buildings and structures with an aggregate carrying value of approximately RMB34,640,000 (31 December 2007: RMB35,649,000) as at 30 June 2008.

## 11. CONSTRUCTION IN PROGRESS

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

	Unaudited 2008 RMB'000	Unaudited 2007 RMB'000
Carrying amount at 1 January	313,439	348,405
Additions	359,431	392,251
Transfers to property, plant and equipment (Note 10)	(289,969)	(353,609)
Carrying amount at 30 June	382,901	387,047

# Notes to Condensed Consolidated Financial Statements

## 12. GOODWILL

	Unaudited 2008 RMB'000	Unaudited 2007 RMB'000
Carrying amount at 1 January	199,143	115,549
Acquisition of minority interests (Note)	–	83,594
Carrying amount at 30 June	199,143	199,143

Note:

During the six months ended 30 June 2007, the Group entered into an agreement to acquire the 48% interest in Mengniu (Wuhan) Frealth Dairy Co., Ltd. (“Mengniu Wuhan”) from a minority shareholder at a consideration of RMB134,400,000. The acquisition gave rise to goodwill of RMB83,594,000. After the acquisition, Mengniu Wuhan became a wholly-owned subsidiary of Inner Mongolia Mengniu Dairy (Group) Company Limited (“Inner Mongolia Mengniu”). Details of the acquisition were disclosed in the Company’s announcement dated 4 April 2007.

## 13. INVENTORIES

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Raw materials	714,974	486,056
Finished goods	632,300	391,387
	1,347,274	877,443

## 14. BILLS RECEIVABLE

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

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Within 3 months	237,213	114,832
4 – 6 months	23	50
	237,236	114,882

As at 30 June 2008, the bills receivable amounting to approximately RMB68,000,000 (31 December 2007: RMB77,250,000) were factored with recourse to financial institutions. The corresponding amounts were recorded as short term bank loans (Note 20).

The amounts due from associates of approximately RMB26,449,000 (31 December 2007: RMB12,069,000) are included in the above balances.

# Notes to Condensed Consolidated Financial Statements

## 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 2008 RMB'000	Audited 31 December 2007 RMB'000
Within 3 months	437,876	226,011
4 – 6 months	11,615	24,136
7 – 12 months	7,424	10,828
Over 1 year	255	390
	<b>457,170</b>	<b>261,365</b>

The amounts due from associates of approximately RMB187,324,000 (31 December 2007: RMB82,480,000) and an amount due from a jointly-controlled entity of approximately RMB5,536,000 (31 December 2007: RMB4,847,000) 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 2008 RMB'000	Audited 31 December 2007 RMB'000
Cash and cash equivalents	1,757,589	1,756,818
Pledged deposits	13,902	44,506
Time deposits with original maturity of more than three months	514,000	454,000
	<b>2,285,491</b>	<b>2,255,324</b>
Less: Deposits pledged for banking facilities (Note 18)	<b>(13,902)</b>	<b>(44,506)</b>
Cash and bank balances	<b>2,271,589</b>	<b>2,210,818</b>

# Notes to Condensed Consolidated Financial Statements

## 17. TRADE PAYABLES

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

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Within 3 months	1,865,465	1,238,629
4 – 6 months	34,194	65,590
7 – 12 months	7,621	7,904
Over 1 year	2,347	3,272
	<b>1,909,627</b>	<b>1,315,395</b>

An amount due to an associate of approximately RMB1,431,000 (31 December 2007: RMB1,924,000) 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.

## 18. BILLS PAYABLE

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

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Within 3 months	100,650	164,684
4 – 6 months	12,066	94,381
	<b>112,716</b>	<b>259,065</b>

Except for an aggregate balance of approximately RMB37,565,000 (31 December 2007: RMB74,038,000) secured by the pledge of certain of the Group's deposits amounting to RMB8,618,000 (31 December 2007: RMB15,341,000), bills payables are unsecured. The above balances are non-interest-bearing.

# Notes to Condensed Consolidated Financial Statements

## 19. ACCRUALS AND CUSTOMERS' DEPOSITS

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Advances from customers	319,576	402,096
Salary and welfare payables	133,534	142,566
	<b>453,110</b>	<b>544,662</b>

The amounts due to associates of approximately RMB59,539,000 (31 December 2007: RMB69,155,000) are included in the above balances. The balances are unsecured, non-interest-bearing and are repayable on demand.

## 20. INTEREST-BEARING BANK LOANS

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Short term bank loans, secured	68,000	77,250
Short term bank loans, unsecured	93,482	105,906
Long term bank loans, unsecured	104,306	80,000
	<b>265,788</b>	<b>263,156</b>

As at 30 June 2008, short term bank loans of approximately RMB68,000,000 (31 December 2007: RMB77,250,000) were secured by certain bills receivable of the Group (Note 14).

During the six months ended 30 June 2008, the Group obtained new bank loans amounting to approximately RMB71,073,000 (six months ended 30 June 2007: RMB170,083,000) and repaid bank loans of approximately RMB56,394,000 (six months ended 30 June 2007: RMB434,326,000).

During the six months ended 30 June 2008, the annual interest rates of the short term bank loans and the long term bank loans varied from 6.42% to 6.57% and from 3% to 6.97% (six months ended 30 June 2007: varied from 3% to 5.81% and from 3% to 6.57%), respectively. As at 30 June 2008, the Group's interest-bearing bank loans were denominated in Renminbi, except for loans of approximately US\$8,425,000 (equivalent to approximately RMB57,788,000) (31 December 2007: US\$5,600,000) denominated in United States dollars.

# Notes to Condensed Consolidated Financial Statements

## 20. INTEREST-BEARING BANK LOANS (continued)

The repayment schedule of the bank loans is as follows:

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Within 1 year	161,482	183,156
1 – 2 years	18,373	20,000
2 – 5 years	85,933	60,000
Total interest-bearing bank loans	265,788	263,156
Less: Amount due within 1 year included in current liabilities	(161,482)	(183,156)
	104,306	80,000

## 21. 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 2008 RMB'000	Audited 31 December 2007 RMB'000
Within 1 year	183,258	171,939
1 – 2 years	127,278	141,609
2 – 5 years	71,495	82,583
Over 5 years	2,685	–
Total long term payables	384,716	396,131
Less: Amount due within 1 year included in current liabilities under other payables	(183,258)	(171,939)
	201,458	224,192

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

# Notes to Condensed Consolidated Financial Statements

## 22. SHARE CAPITAL

		Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
<i>Authorised:</i>			
3,000,000,000 ordinary shares of HK\$0.1 each		319,235	319,235
		<b>Number of ordinary shares</b>	
	Notes	'000	RMB'000
<i>Issued and fully paid:</i>			
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
At 1 January 2007 (Audited)		1,368,416	145,573
Issue of shares	(b)	57,460	5,682
At 30 June 2007 (Unaudited)		1,425,876	151,255

### Notes:

- (a) The 175,759 share options exercised during the period resulted in the issue of 175,759 ordinary shares of the Company and new share capital of RMB16,000 and share premium of RMB2,055,000. The weighted average share price at the date of exercise for these options was HK\$24.82 per share.
- (b) During the six months ended 30 June 2007, the Company completed the placing of 57,460,000 new shares of the Company with a par value of HK\$0.1 each at the placing price of HK\$24 (equivalent to RMB23.73) per share, resulting in proceeds, net of share issue expenses, of approximately HK\$1,363,404,000 (equivalent to approximately RMB1,348,229,000). The placing gave rise to a share premium of HK\$1,357,658,000 (equivalent to approximately RMB1,342,547,000), being the excess of the gross proceeds less share issue expenses over the par value of the new shares issued of HK\$5,746,000 (equivalent to approximately RMB5,682,000).

# Notes to Condensed Consolidated Financial Statements

## 23. 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
<b>For the six months ended 30 June 2008 (unaudited)</b>						
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 22(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
<b>For the six months ended 30 June 2007 (unaudited)</b>						
At 1 January 2007	1,127,581	232,020	495,063	1,697	3,108	1,859,469
Issue of shares (Note 22(b))	1,342,547	–	–	–	–	1,342,547
Currency translation differences	–	–	–	(15,755)	–	(15,755)
Equity-settled share option arrangements	–	–	–	–	7,785	7,785
At 30 June 2007	2,470,128	232,020	495,063	(14,058)	10,893	3,194,046

# Notes to Condensed Consolidated Financial Statements

## 24. CONTINGENT LIABILITIES

The Group is contingently liable in respect of loan guarantees granted to certain banks in favour of certain suppliers of raw milk (the "Suppliers"). The amount of the guarantees granted as at 30 June 2008 was approximately RMB97,910,000 (31 December 2007: RMB109,800,000). Approximately RMB77,910,000 (31 December 2007: RMB89,800,000) of the above guarantees are cross-guaranteed and secured by assets owned by these Suppliers who are independent third parties. Security under these counter-guarantees included property, dairy cattle and other assets owned by the Suppliers.

## 25. CAPITAL COMMITMENTS

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

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Contracted, but not provided for	<b>203,828</b>	303,454

## 26. RELATED PARTY TRANSACTIONS

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

		Unaudited For the six months ended 30 June	
	Notes	2008 RMB'000	2007 RMB'000
Sale of liquid milk products to associates	(i)	<b>1,985,441</b>	1,376,901
Sale of ice cream products to associates		<b>148,601</b>	73,520
Sale of other dairy products to associates		<b>9,745</b>	–
Purchase of raw materials from an associate	(i)	<b>70,320</b>	53,407
Sale of raw materials to a jointly-controlled entity	(ii)	<b>29,586</b>	10,065
Key management compensation	(iii)		
– directors' fees		<b>120</b>	135
– salaries and allowances		<b>2,648</b>	2,595
– retirement benefits contributions		<b>135</b>	121

# Notes to Condensed Consolidated Financial Statements

## 26. 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 and 2007, 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 RMB26,760,000 (2007: RMB374,000).

## 27. SUBSEQUENT EVENTS

On 8 April 2008, the Company entered into an Equity Interest Transfer Agreement with certain sellers (the “Sellers”), pursuant to which the Company has conditionally agreed to acquire approximately 8.97% of the equity interest in Inner Mongolia Mengniu, the main operating subsidiary of the Company, by allotting and issuing 135,328,255 ordinary shares of the Company (the “Consideration Shares”) to the Sellers. Details of the acquisition were disclosed in the Company’s announcement dated 8 April 2008. Subsequent to the balance sheet date, the acquisition was completed and the Consideration Shares were issued on 25 July 2008 to the Sellers accordingly.

On 18 August 2008, the Group granted 80,540,000 options to employees, including directors, at an exercise price of HK\$22.03 per share (the average closing share price for the five business days immediately preceding the grant date) under a share option scheme operated by the Company. 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. The fair value of the share options at the grant date is currently being assessed by an independent valuer.

On 5 September 2008, the Company acquired the entire share capital of AustDairy Limited, which is an investment company that holds a 70% equity interest in Inner Mongolia Mengniu AustAsia Model Dairy Farm Company Limited (“AustAsia”), at a total cash consideration of RMB89,661,587. AustAsia is currently an associate of Inner Mongolia Mengniu in which Inner Mongolia Mengniu holds a 30% equity interest. The Group is in the process of assessing the fair values of the acquiree’s identifiable assets, liabilities and contingent liabilities recognised at the acquisition date.

On 16 September 2008, the baby milk powder products manufactured by the Group were found to contain melamine in three samples out of the 28 samples under the laboratory testing by General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China (hereafter “GAQSIQ”). On 18 September 2008, the liquid milk products manufactured by the Group were also found to contain melamine in 11 samples out of the 121 samples under the laboratory testing by GAQSIQ. The Group has taken immediate actions in response to the findings. As the outcome of the matter is subject to uncertainties, it is not possible for management to make a meaningful estimate of the impact associated with such matter as at the date of this report.

## 28. 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 19 September 2008.

# 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 13 to 33 which comprises the condensed consolidated balance sheet of China Mengniu Dairy Company Limited (the “Company”) and its subsidiaries (the “Group”) as at 30 June 2008 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board.

The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, 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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Hong Kong  
19 September 2008