



蒙牛[®]

好品质 绿生活

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 **2010**

* For identification purposes only

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. YANG Wenjun
Mr. BAI Ying
Mr. WU Jingshui (appointed on 1 March 2010)
Mr. Ding Sheng (appointed on 1 March 2010)
Mr. YAO Tongshan (resigned on 1 March 2010)

Non-Executive Directors

Mr. NIU Gensheng (re-designated to
a non-executive director on 9 June 2010)
Mr. NING Gaoning
Mr. JIAO Shuge (alias JIAO Zhen)
Mr. Julian Juul WOLHARDT
Mr. YU Xubo
Mr. MA Jianping
Mr. FANG Fenglei
Mr. MA Wangjun (appointed on 1 March 2010)

Independent Non-Executive Directors

Mr. ZHANG Julin
Mr. LIU Fuchun
Mr. ZHANG Xiaoya

SENIOR MANAGEMENT

Mr. YAO Haitao
Ms. ZHAO Yuanhua
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

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PLACE OF BUSINESS IN HONG KONG

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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

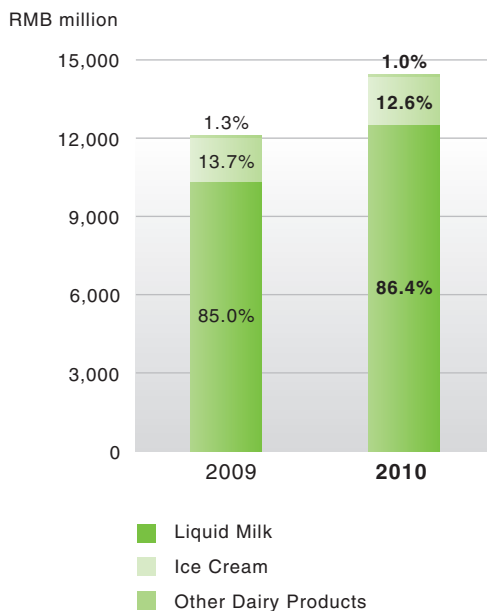
Financial Highlights

	Unaudited	
	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Revenue	14,434,223	12,097,615
Gross profit	3,787,172	3,233,040
Profit attributable to owners of the Company	618,820	661,898
Net cash inflow from operating activities	1,168,703	1,748,270
Earnings per share (RMB)		
– Basic	0.356	0.424
– Diluted	0.355	0.424

- Following the expanding dairy products market in China, the Group focused more on the R&D of high-end products and continued to upgrade the product portfolio during the reporting review. With the effective marketing campaigns, revenue rose by 19.31% to RMB14,434.2 million.
- The Group further expanded production capacity and its aggregate annual production capacity reached 6.14 million tonnes as of June 2010.
- In the latest Report of Global Dairy Companies issued by Rabobank in June 2010, Mengniu's ranking further jumped from 19th last year to 16th this year.
- Having "High Quality for a Green Life" as its motto, the Group strived to promote environmental protection and has been named "China's Low Carbon Pioneering Enterprise" and the "Most-Watched Low Carbon Contribution Enterprise", and received the award of "Green Healthy Enterprise", which recognised the Group's innovative achievements in green industry.

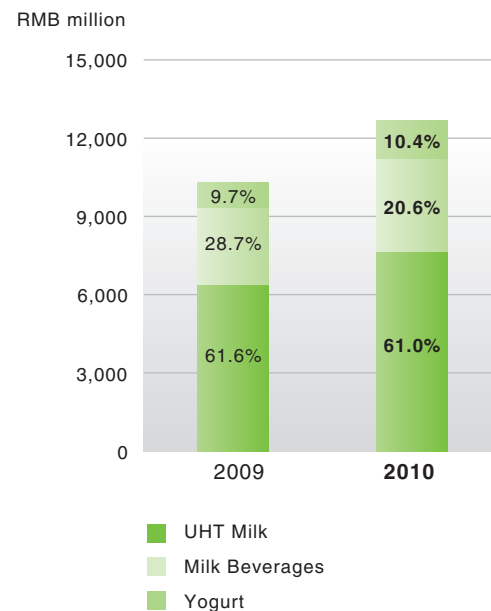
Revenue by Product Mix

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

Following the expanding dairy products market in China, the Group focused more on the R&D of high-end products and continued to upgrade the product portfolio during the period under review. With the effective marketing campaigns, revenue of the Group increased by 19.31% to RMB14,434.2 million (2009: RMB12,097.6 million) for the six months ended 30 June 2010. The rise in revenue also underscored a satisfactory increase in turnover during the period. Profit attributable to owners of the Company was reported at RMB618.8 million (2009: RMB661.9 million). Basic earnings per share was RMB0.356 (2009: RMB0.424).

Gross profit

The Group recorded a gross profit of RMB3,787.2 million (2009: RMB3,233 million), representing an increase of 17.14% compared with the same period last year. Despite the substantial increase in price of raw milk and other raw materials, the Group was able to offset the impact by increasing the proportion of high-end functional products, continuously refining its product portfolio and exercising stringent cost control measures, consequently maintaining overall gross margin at 26.2% (2009: 26.7%).

Operating Expenses

In the first half of 2010, the selling and distribution costs of the Group amounted to RMB2,601.7 million (2009: RMB1,942.5 million), accounting for 18% (2009: 16.1%) of the Group's revenue. Included in these costs, the percentage of advertising and promotion expenses to the Group's revenue was 8.1% (2009: 8.7%). The increase in the percentage of selling and distribution costs to the Group's revenue was mainly attributable to a rise in leasing fees, transportation expenses and other distribution costs.

Administrative and other operating expenses amounted to RMB515.8 million (2009: RMB463 million), accounting for 3.6% (2009: 3.8%) of the Group's revenue. The percentage of overall administrative and other operating expenses to revenue was down from the last corresponding period mainly due to the Group's ability to improve resources allocation and utilization efficiency by optimizing its operation and management system, and the reduction of provision for inventory.

Profit from Operating Activities

The Group's EBITDA for the period was RMB1,077.5 million (2009: RMB1,190.4 million), while EBITDA margin was 7.5% (2009: 9.8%). The Group's EBITDA margin for the period was comparable with the 7.8% in the full year of 2009.

Capital Structure, Liquidity and Financial Resources

For the six months ended 30 June 2010, the Group's net cash inflow from operating activities amounted to RMB1,168.7 million (2009: RMB1,748.3 million). Net cash balances (cash and bank balances net of total bank loans) reached RMB5,966.8 million (31 December 2009: RMB5,476.4 million) as at 30 June 2010, indicating that the Group had a strong financial position and healthy cash flow.

Management Discussion and Analysis

As at 30 June 2010, the outstanding bank loans of the Group amounted to RMB596.1 million (31 December 2009: RMB673.6 million), of which RMB446.1 million (31 December 2009: RMB323.6 million) was repayable within one year and RMB150 million (31 December 2009: RMB350 million) was repayable beyond one year. Bank loans in the amount of RMB246.1 million (31 December 2009: RMB323.6 million) was fixed interest-bearing.

The total equity of the Group was RMB9,515 million (31 December 2009: RMB8,911.7 million) as at 30 June 2010. The debt-to-equity ratio (total bank loans over total equity) of the Group was 6.3% (31 December 2009: 7.6%).

The Group's finance costs for the period amounted to RMB21.94 million (2009: RMB47.92 million), representing approximately 0.2% (2009: 0.4%) of the Group's revenue.

MARKET REVIEW

Driven by the state's policy of "Adjusting Structure and Promoting Consumption", China's dairy industry has entered into a booming period in the first half of 2010. China's vast consumer base, together with the rising spending power and structural economic improvement accompanied by the sustained rapid economic growth, has created huge market potential and unlimited business opportunities for dairy industry players in China.

As a leader in China's dairy industry, Mengniu has further leaped higher in terms of its ranking in the international dairy arena by continuously attaching importance to the quality of its raw materials, production process and product lines. According to the latest Report of Global Dairy Companies issued by Rabobank in June 2010, Mengniu's ranking jumped from 19th last year to 16th this year, heading towards its goal of becoming one of the world's top ten dairy companies.

BUSINESS REVIEW

Mengniu further lifted its standards and requirements in raw milk, production, operation, marketing, research and development. The remarkable results recorded in the first half of 2010 have laid a good foundation for the sustainable development of the Group.

As for raw milk sources, the Group has continued to devote more resources and adopted an integrated development model by taking a variety of important measures, such as investing in large scaled ranches, offering entrusted loans, prepaying for raw milk and constructing milk farm facilities etc. These measures were aimed at further strengthening the construction of raw milk facilities and ensuring the quality and quantity of raw milk meeting the development needs of the Group. Currently, more than 70% of raw milk is sourced from the integrated dairy ranches and less than 30% is from dairy farmers. This proportion is far better than the average level of the industry, and ensures the stable, safe and sustainable growth of raw milk supply.

The Group has continued to optimise its management in production, operation and sales processes, to reduce waste, boost operational efficiency and gradually reduce inefficient use of resources in product categorisation. After improving functions of its internal management, the Group would then be in a position to bring the business structure up to the standard of leading international enterprises.

Management Discussion and Analysis

The Group's business development objective has been committed to not only a quantitative increase but also more importantly, an improvement in quality, in an effort to pursue sustainable development. Mengniu proactively takes the responsibility of providing a healthy and quality lifestyle for consumers by securing quality raw milk supply and constantly launching high-end products by incorporating premium features to enhance customers' satisfaction. As a leading industry player devoted to the fulfilment of corporate social responsibility, Mengniu regards a "Green Strategy" as an unswerving guideline for its development strategy. The Group spares no efforts in creating a green and harmonious golden industry chain based on ecological grasslands, and provides each consumer with green ecological products by using prime quality natural and pure raw milk supplied by dairy ranches, which also conveys a green and low carbon message to the public.

Branding and Marketing

During the period under review, the Group was the first company in China's dairy industry to launch its "Green Strategy", complemented by a series of branding and marketing activities. The slogan "High Quality for a Green Life" (好品質·綠生活) reflected its commitment to consumers and the community, and determination to lead a "Green Change" (綠色轉變) in operations as well as in economic development and lifestyle.

Earlier this year, the Group has joined the National Green Committee (國家綠化委員會) and the community-service organisation "Eco-China" to launch the "China Ecoranch" (中國生態草原) programme and create the "China Ecoranch Fund" to arouse the awareness of the society on the protection of both pasture lands and the ecosystem. During the World Expo 2010 Shanghai, the Group embarked on the large-scale eco-activity campaign "Eco-Action for Green China" (生態行動·助力中國) to encourage the society to care about and participate in the building of an ecological-friendly China and a green lifestyle. Specifically, the main exhibition hall of the "Mengniu Dairy Pavilion" displays Mengniu's environmental-friendly production process and the eco-industrial park through a 360-degree panorama screen. This has enhanced the recognition by consumers of the Green concepts promoted by Mengniu and thus aims to convince the society that green development is an effective way to achieve sustainable growth. Meanwhile, the "Future Dairy Pavilion", in which a virtual future dairy world is presented through 3D technology, allows consumers to experience the vitality of the modern dairy industry and the ecologically sustainable future. Mengniu also promotes the concept of green living by launching a series of activities on location or through the Internet, such as the "Ecological Signature" (生態大簽名) and the "Carbon Test" (碳測試), enabling consumers to conveniently participate in the low carbon and green community activities. These green-themed promotion campaigns effectively highlight the green ecological image of **MENGIU** and the Group's commitment to social responsibility.

At the vanguard of encouraging eco-friendly production in China's dairy industry, Mengniu's initiative in environmental protection has won wide acclaim. The Group has not only been named "China's Low Carbon Pioneering Enterprise" (中國低碳新銳企業) at the "2010 China Low Carbon Economy Forum" (2010中國低碳經濟論壇), but has also received the award of the "Most-Watched Low Carbon Contribution Enterprise" (最受關注的低碳貢獻企業) at the "First Annual Meeting of the Low Carbon China Forum" (低碳中國論壇首屆年會). It ranked 28th in "2010 Best Chinese Brands" (2010中國最佳品牌價值排行榜) compiled by *Forbes* and Interbrand, as the only dairy brand in China to be included within the roll.

Management Discussion and Analysis

The Group initiated a “Special Consumer Reception Month” (消費者特別接待月) campaign where the CEO of the Group met with consumers and answered their questions in person, and allowed consumers to witness the whole process for producing Mengniu’s milk with natural ecological quality. The Group’s high transparency and accountability to consumers has won their support and trust, which the Group believes to have helped **MENGNIU** in earning honours in various consumer surveys conducted by competent authorities, including the “Most Reliable Food Brand” (最受信賴食品品牌), “Most Popular Food” (最佳人氣食品) and “Most Favourite Milk Brand of Beijing Residents” (首都消費者最喜愛牛奶品牌). Moreover, *Milk Deluxe* (特侖蘇), Mengniu’s high-end product, was named as “Beijing Female Consumer’s Favourite Milk Brand” (最受北京女性消費者喜愛的牛奶品牌), while *Fruit and Vegetable Suan Suan Ru* (果蔬酸酸乳) was honoured as “College Students’ Favourite Brand” (最受大學生歡迎獎) and *Suan Suan Ru* (酸酸乳) was named as “Most Satisfied Brand in the Shanghai Milk Beverage Industry” (上海城市乳飲料行業公眾滿意度金獎).

Products

The Group introduced various high-end ecologically friendly and healthy dairy products, and continued to make improvements and innovation in taste, packaging and nutrition while further consolidating its market share by enriching product line.

Liquid milk

Revenue from the liquid milk segment amounted to RMB12,462.2 million (2009: RMB10,287.5 million), grew by 21.1% from the corresponding period of last year, accounting for 86.4% (2009: 85%) of the revenue of the Group as its major income source.

UHT milk

Revenue from UHT milk products reached RMB7,604.6 million (2009: RMB6,339.1 million), representing an increase of 20% as compared with last year, accounting for 61% (2009: 61.6%) of liquid milk segment revenue. *Milk Deluxe* (特侖蘇), a high-end product series, added a new product *Milk Deluxe Chunxian* (特侖蘇醇纖), with phytosterol esters and food fiber offered to attain nutritional balance. *Xin Yang Dao Low-Lactose Milk* (新養道低乳糖牛奶), the flagship product of the *Xin Yang Dao* (新養道) series, which was prominent among middle to high-end functional milk products because of its nutritional value and easy digestion feature, was awarded a gold prize at the “China International Nutrition & Health Industry Expo Shanghai” (中國國際營養健康產業博覽會). The *XinYang Dao Zhenyang Milk* (新養道珍養牛奶), a new product of this series, has combined donkey-hide, red jujube and medlar, considered to be beneficial to health in the Orient. Based on existing *Wisdom* (智慧型) and *Vitality* (活力型) products, the *Future Star Milk* (未來星兒童奶) series launched a new product called *Youhu* (優護型), which catered for the overall development of children’s brains, bones, and digestive systems. This series was upgraded as a whole during the period by adding DHA algal oil using advanced technology. The *Future Star Milk* (未來星兒童奶) series was not only recognised as the first children’s liquid milk in China designed for the need of children’s growth and development, but also garnered an Innovative Product Award at the French International Food and Beverage Exhibition (SIAL) (法國SIAL國際食品展) and a Monde Selection prize by Belgian International Institute for Quality Selections, testimony to Mengniu’s leading position in the children dairy market.

Management Discussion and Analysis

Milk beverages

Revenue from the milk beverages segment was RMB3,562.4 million (2009: RMB2,954 million), increased by 20.6% from the corresponding period of last year, accounting for 28.6% (2009: 28.7%) of the liquid milk segment revenue. Through the promotional campaign entitled “China’s Top of the PopChart – MusicRadio – Music Dream Campus Tour” (MusicRadio 中國TOP排行榜音樂夢想學院校園行), the Group enhanced the trendy brand image of its *Suan Suan Ru*. The *Suan Suan Ru* (酸酸乳) series has become even more popular among the young generation, while one new flavour – papaya has been added to the *Fruit and Vegetable Suan Suan Ru* (果蔬酸酸乳) series, thus offering more choices for consumers. Along with the breakthrough in sales volume of fruit milk, the promotional campaign themed “900 Million Reasons for Loving Fruit Milk” was launched to clearly define the brand image of “Fashionable, High-end and Leadership”. In addition, *Fruit-fiber Milk* (果纖乳), a new generation of fruit juice milk beverages with fruit fiber, was introduced to the market during the period, and was packaged in distinctive plastic bottles for easy drinking. Meanwhile, *Nai Te* (奶特), a new series of high-end fruit flavoured milk beverages, has banana fiber added to boost the movement of stomach and intestines. It has been designed to cater for consumers’ appetite for a product that is beneficial for the functions of the human intestine.

Yogurt

Revenue from the yogurt segment increased by 30.2% to RMB1,295.2 million (2009: RMB994.4 million), accounting for 10.4% (2009: 9.7%) of the liquid milk segment revenue. The pursuit of a natural, healthy and enjoyable product has remained the focus in creating high-end yogurt products of the Group. *Champion* (冠益乳) obtained national certification as a healthy product. Thus further strengthening its leading position among high-end yogurt products. This product was promoted at the activity entitled “Public Welfare Popular Science Classroom” on the “World Intestine Health Date” to arouse public awareness of the benefits of yogurt for the health of human digestive system, thus establishing *Champion* (冠益乳) as the first brand of yogurt. *Red Jujube Yogurt* (紅棗酸牛奶), incorporating the Chinese traditional nourishment concept, has been welcomed by the market for its good taste, recording remarkable sales. *Grain Yogurt* (穀物酸牛奶), an ideal alternative to conventional meals, is readily edible and contains a full range of nutrition, has been launched to cater for the rapid rhythm of urban life, and has become a new favourite of young white-collar workers.

Ice cream

Revenue of the ice cream segment amounted to RMB1,821.1 million (2009: RMB1,657.7 million), accounting for 12.6% (2009: 13.7%) of the revenue of the Group, up by 9.9% from the corresponding period of last year. The product lines were gradually optimised during the period to include low-end, mid-range and high-end ice-cream brands, particularly strengthening the mid-to- high-end products. The Group has also set a long-term branding strategy to secure sustainable development for all product lines. The seasonal fluctuation in consumption of ice cream has been diminishing along with the increasing popularity of ice cream as a leisure dessert. The Group has kept abreast with this trend and has vigorously strived to boost the sales of leisure products in the low season. The marketing campaign themed “Endless Joy with One More” was initiated to build a “ready-for-change” (勇於改變) brand image for *Sui Bian* (隨變) products, and a number of new flavors with additional ingredients including whole hazelnuts and big walnut seeds, tailored for the new generation of targeted sophisticated consumers, were launched to improve the popularity of the brand among the fashionable young generation. The *Mood for Green* (綠色心情) series, in addition to the traditional flavour with green beans as the main ingredient, has been supplemented with condensed milk, red beans and honey melon to offer consumers multiple taste sensations for enjoyment and refreshment.

Management Discussion and Analysis

Other dairy products

Revenue from other dairy products amounted to RMB150.9 million (2009: RMB152.4 million), accounting for 1% (2009: 1.3%) of the revenue of the Group. In regard of milk powder, *ChaoJin Zhuang ZhiJiayi TM* (超金裝智佳益 TM), a new product of **MENGNUI ARLA** (蒙牛阿拉), was launched with the nutrition formula increasing the amount of probiotics fourfold to improve the intelligence and immune systems of infants. Meanwhile, the official website of **MENGNUI ARLA** has been formally put into operation to offer a wide range of services including an online baby-care centre and parents-child club for members, aiming to witness together with parents the healthy growth of their babies day-by-day.

For cheese, the Group has continuously introduced new cheese products according to the preference of Chinese consumers to enhance market penetration. At current, the Group has established product series including *Distingue Elegant Life Cheese* (締芝特優雅生活), *Distingue Family Breakfast Cheese* (締芝特家庭早餐) as well as *Growth Cheese* (成長). The Group has also innovatively launched cheese snack products including *Cheese Mate* (酪伴) and developed four main categories of cheese, namely *Breakfast Cheese*, *Cheese for Children*, *Fresh Cheese* and *Leisure Cheese*. *Distingue Fresh Cheese* (締芝特新鮮奶酪) is soft with a fresh milk flavor, for which a new way of eating cheese has been created with the inclusion of original strawberry jam or newly launched blueberry jam. These products have been selling well in the market.

Quality Control

The Group has been cautious in its approach to quality control during the period. On top of the existing measures, the Group has further strengthened the monitoring and enhancement procedures on the quality of raw milk, with supervision applied to all aspects of production, including individual dairy cattle, grazing and milking environment, milking equipment, transportation time etc. Meanwhile, the Group accords top priority to consumers' health, and has extended the monitoring scope of raw milk quality from the milk itself to tracing the safety of feed and veterinary drugs, in the quest to provide consumers with high quality products. This preemptive management model on raw milk quality is a pioneer in the industry.

Production and Operation

The Group continued to expand production capacity, raising it to an aggregate of 6.14 million tons (December 2009: 5.76 million tons) a year as at June 2010.

Mengniu's Dairy Research Institute & High-Tech Production Base has already been put into operation. The base integrates teaching, training, R&D, testing, production, storage and the reception of visitors, and has attained leading international standards in the dairy industry for energy utilisation, architectural style, logistics zoning and more. It has become a model for the modern dairy production base.

During the period, the Overseas R&D Center (Paris) of the Group, jointly set up by Mengniu and the Danisco Group, was formally established, marking a milestone of Mengniu's international strategy. The R&D Center will effectively integrate overseas technology resources, reduce the basic research cost and shorten the research period. Thus, it will enhance the Group's technical strength and upgrade its international competitiveness.

Management Discussion and Analysis

Joint Ventures and Alliances

Besides exploring the feasibility of forming a strategic alliance with COFCO, the Group also continued to strengthen partnerships with leading enterprises within a variety of industries, broaden sales channels and expand product sales through specialised channels, including airlines, airports, gasoline stations, railway stations, hotels, theatres and fast-food chains, etc.

Industry Exchange

As a pioneer in China's dairy industry, the Group believes it has responsibility to lead a healthy development of the industry as a whole. Towards that end, the Group continuously provides dairy farmers with on-going technical support services through the Mengniu Service Centre for Designated Collection Facilities. External livestock nutritionists, equipment engineers and other experts appointed by the Group had visited milk stations and proposed solutions to solve such problems as low milk protein, low density and other inferior nutrition indicators for milk. The Group also provided dairy farmers with training on dairy cattle feeding, disease prevention and equipment operation as well as guidance for on-site cattle husbandry skills, aiming to improve the technical level of farmers in the raw milk areas and ranches.

Meanwhile, the Group also actively participated in a number of academic exchanges and cooperation activities, including research projects jointly undertaken by China Agricultural University and the Group for the country's Eleventh Five-Year Plan. Research papers by the Group on timely topics such as natural nutrition, functional health, product development and innovation were published in "China Dairy Industry" and other authoritative journals, for the purpose of exchanging ideas with its peers and achieving common progress in the dairy industry.

Social Responsibility

Keeping its promise of "Quality products for green life" to consumers and society, Mengniu initiated a green campaign within the dairy industry to jointly construct a "Green Industry Chain" by preferably selecting suppliers and partners following green and low-carbon practices. It also announced the plan to use new packaging materials which had passed the Forest Certification System and were environmentally friendly. These measures are its practical deeds to promote the development of green dairy procedures. In the meantime, by exerting a subtle influence on its customers, the Group has transmitted the concept of "Green Consumption". To allow more consumers understand that milk cartons are recyclable, the Group carried out a public ecological activity of "Press it flat after drinking and support the recycling of milk cartons" in various communities. With the support of communities and volunteers, Mengniu effectively promoted the recycling packaging materials and the sustainable development of the ecological environment. Furthermore, Mengniu and Ecological China Committee jointly organised a large-scale public benefit activity of "100 Acts for Saving the Earth" (拯救地球100個行動), aiming to provide a platform for enterprises, communities and individual volunteers who are devoted to the protection of the environment and to attract more social attention to environment protection.

In addition to promoting a series of activities such as "China Milk Caring Acts" (中國牛奶愛心行動), the Group has also carried out the programme of "Love Gifts" for school children. The widespread public interest and extensive participation in the programme won support from millions of "netizens". Hundreds of gifts were subscribed by enthusiastic netizens to help children in need to realise their dreams.

Management Discussion and Analysis

OUTLOOK

From 2010 onwards and for the foreseeable future, China's dairy industry will enter into a continuous, rapid and healthy development stage. Based on the "Dairy Product Industrial Policies (2009 Revision)" (《乳製品工業產業政策(2009年修訂)》) and "Technical Regulations for Standardisation Management on Raw Milk Collection Centres" (《生鮮乳收購站標準化管理技術規範》), in early 2010, China's Ministry of Health promulgated 66 new national safety standards for dairy products including raw milk (《生乳》) (GB19301-2010) in early 2010, which further promoted the sound development of China's dairy industry towards the concept of green and eco-friendly production.

Being one of the world's top 16 dairy enterprises symbolises a milestone in the Group development. Based on this solid foundation, Mengniu aims to become one of the world's top 10 dairy enterprises. On the one hand, it plans to focus on R&D to develop healthy functional dairy products while producing high-end products of domestic top level and international first-class level to lead the market. On the other hand, the Group intends to continuously increase the proportion of milk sources from eco-friendly ranches and further attain a competitive edge in milk sources to lead the industry in building a "green-gold" industry chain for dairy products.

More Innovation and R&D in Nutritious and Healthy Products to Protect Consumers' Health

The Group's R&D centre will strengthen its efforts in products based on nutrition and health requirements, promote the development of functional products under the "Jian Zi" label (健字號), and focus on market demand to meet the increasing expectations from consumers. Meanwhile, through international cooperation and relying on advanced external sources, the Group will gain access to international first-class dairy production technology and develop patented products, to fill gaps in the domestic dairy market.

Promote Standardisation of Ranches for Advantages in Milk Sources with Attention to Natural and Pure Brand of Eco-friendly Pastures

With milk sources located at 40 degree north latitude and a naturally endowed environment, the Group will continuously promote the standardisation of ranches and increase the proportion of milk sources from ranches. Meanwhile, the quality control of raw milk will be further improved. The Group will vigorously carry out pre-emptive control measures for raw milk whereby the scope of quality control of raw milk will go upstream. Through monitoring the safety of fodder and drugs, the Group will further improve the quality of raw milk thus calling attention to the natural and pure from eco-friendly pastures.

Continuously Enrich the Product Matrix and Strive for Excellence in Flavour, Nutrition and Packaging of Products

Rising consumer incomes and expenditures and the subsequent upgraded consumption structure in China will further drive the consumption of high-end dairy products. The Group will continue to upgrade the flavour, nutrition and packaging of dairy products, to steadfastly grasp the evolving trend of high-end and niche markets for dairy products and consolidate its market share. Meanwhile, the Group will proactively enhance the communication with customers, to increase its brand affinity and gain preference among customers.

Management Discussion and Analysis

Promote the “Green Strategy” and Create a “Green Gold” Industry Chain for the Chinese Dairy Product Industry

The Group will play an important role in vigorously promoting the production and consumption of dairy products and related activities in an environmental-friendly and low-carbon emitting way, giving special preference to methane power generation, sewage treatment and recycling of packaging. It will also proactively advocate the suppliers and partners upstream and downstream within the dairy industry to cooperate with dairy product enterprises, with an aim to create a green industry. Additionally, the Group will launch a series of ecological public activities to guide the consumers and to turn the goal of green consumption into reality.

Looking forward, Mengniu envisages becoming one of the “World’s Top Ten Dairy Enterprises” and will persistently strive to be an elite international enterprise in terms of facilities design and layout, production, operations, sales and R&D by strengthening the cooperation and setting up joint ventures with international and domestic peers and associates. Meanwhile, the Group will continuously pursue excellence in providing its customers with products of high grade, high quality and high nutrition, and is dedicated to create “Good Quality” and “Green Living” for its customers.

HUMAN RESOURCES AND REMUNERATION OF EMPLOYEES

The Group had approximately 21,100 employees in Mainland China and Hong Kong as at 30 June 2010. Total staff costs during the period, excluding directors’ fees, were approximately RMB767.4 million (corresponding period of 2009: RMB625.2 million). The Group has stepped up its efforts to provide intensive training programmes to staff members. Managers and technicians were offered opportunities to study abroad, attend training programmes and make professional visits, while timely taking note of information about the latest policies for the dairy industry promulgated by the government, with the goal of improving professional expertise and overall competency. Meanwhile, the Group’s staff were offered competitive remuneration with the aim that they would dedicate themselves whole-heartedly to their work and provide services to customers.

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 2010 (“interim financial statements”).

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: 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 2010, 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 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 (Note 3)
Niu Gensheng	The Company	Personal Interest	68,781,022 (L)	3.96%
	The Company	Corporate Interest (Note 1)	100,412,466 (L)	5.78%
	The Company	Interest under Concert Party Agreement (Note 2)	263,533,393 (L)	15.17%
	Inner Mongolia Mengniu	Personal Interest	21,111,225 (L)	2.63%
Yang Wenjun	The Company	Personal Interest	1,506,196 (L)	0.09%
	The Company	Interest under Concert Party Agreement (Note 2)	263,533,393 (L)	15.17%
	Inner Mongolia Mengniu	Personal Interest	2,404,453 (L)	0.30%

Report of the Directors

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 (Note 3)
Bai Ying	The Company	Personal Interest	148,837 (L)	0.01%
	The Company	Interest under Concert Party Agreement (Note 2)	263,533,393 (L)	15.17%
	Inner Mongolia Mengniu	Personal Interest	237,600 (L)	0.03%

Notes:

- 100,412,466 shares are held by Yinniu Milk Industry Limited ("Yinniu"), a shareholder of the Company, which is controlled as to 96.26% by Xin Niu International Limited ("Xin Niu"). Niu Gensheng, by virtue of a proxy, has been delegated voting rights of the shares in Yinniu held by Xin Niu.
- On 24 July 2008, Xin Niu, Yinniu, Jinniu Milk Industry ("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.
- The total issued shares of the Company as at 30 June 2010 was 1,737,214,654.

(L) Indicates a long 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 2010, 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.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2010, the interests or short positions of substantial shareholders, other than the Directors or the chief executive of the Company whose interests and short positions in the shares of the Company and of its associated corporations (within the meaning of Part XV of the SFO) 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 the Company's Issued Share Capital (Note 4)
COFCO Limited	348,000,000 (L) (Note 3)	20.03%
COFCO Dairy Holdings Limited	347,600,000 (L)	20.01%
Fang Fenglei	347,600,000 (L)	20.01%
Hopu Investment Management Co., Ltd	347,600,000 (L)	20.01%
Ong Tiong Sin	347,600,000 (L)	20.01%
Xin Niu	100,412,466 (L) (Note 1)	5.78%
	263,533,393 (L) (Note 2)	15.17%
Yinniu	100,412,466 (L) (Note 1)	5.78%
	263,533,393 (L) (Note 2)	15.17%
Jinniu	36,571,292 (L)	2.11%
	263,533,393 (L) (Note 2)	15.17%
Sun Yubin	263,533,393 (L) (Note 2)	15.17%
Deng Jiuqiang	263,533,393 (L) (Note 2)	15.17%
Lu Jun	263,533,393 (L) (Note 2)	15.17%
Sun Xianhong	263,533,393 (L) (Note 2)	15.17%
Wang Fuzhu	263,533,393 (L) (Note 2)	15.17%
Bai Jun	263,533,393 (L) (Note 2)	15.17%
Hou Jiangbin	263,533,393 (L) (Note 2)	15.17%
Qiu Lianjun	263,533,393 (L) (Note 2)	15.17%
Pang Kaitai	263,533,393 (L) (Note 2)	15.17%
Chu Xiuli	263,533,393 (L) (Note 2)	15.17%
Li Shurong	263,533,393 (L) (Note 2)	15.17%
Liu Xiaoling	263,533,393 (L) (Note 2)	15.17%
Wang Guisheng	263,533,393 (L) (Note 2)	15.17%
Wang Ai Suo	263,533,393 (L) (Note 2)	15.17%
Wang Jishan	263,533,393 (L) (Note 2)	15.17%
Wang Jianbang	263,533,393 (L) (Note 2)	15.17%
Jiang Hong	263,533,393 (L) (Note 2)	15.17%
Zheng Wenping	263,533,393 (L) (Note 2)	15.17%
Ren Meicheng	263,533,393 (L) (Note 2)	15.17%
UBS AG	140,729,232 (L)	8.10%
	1,128,306 (S)	0.06%
J P Morgan Chase & Co	122,951,179 (L)	7.08%
	508,000 (S)	0.03%
	120,809,026 (P)	6.95%

Report of the Directors

Notes:

- (1) 100,412,466 shares are held by Yinniu, a shareholder of the Company, which is controlled as to 96.26% 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.
 - (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 263,533,393, representing approximately 15.17% of the issued shares of the Company as at 30 June 2010. These shares are beneficially owned by Yinniu, Jinniu, Niu Gensheng, Yang Wenjun, 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 Sun Yubin (as to 2,498,444 shares) 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 Ai Suo (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).
 - (3) Comprising 400,000 shares which are directly held by COFCO Limited and 374,600,000 shares indirectly by COFCO Limited through COFCO Dairy Holdings Limited.
 - (4) The total issued shares of the Company as at 30 June 2010 was 1,737,214,654.
- (L) Indicates a long position.
(S) Indicates a short position.
(P) Indicates a lending position.

Saved as disclosed above, as at 30 June 2010, 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				Date of grant of share options	Exercise period of share options (both dates inclusive)	Exercise price of share options HK\$
	As at 1 January 2010	Exercised during the period	Lapsed during the period	As at 30 June 2010			
Executive directors							
Yang Wenjun ⁽¹⁾	9,000,000	–	–	9,000,000	18.8.2008	18.8.2010 to 17.8.2014 ⁽³⁾	22.03
	6,600,000	–	–	6,600,000	23.11.2009	23.11.2011 to 22.11.2015 ⁽⁴⁾	24.40
Yao Tongshan ⁽⁶⁾	1,000,000	–	–	1,000,000	18.8.2008	18.8.2010 to 17.8.2014 ⁽³⁾	22.03
	1,000,000	–	–	1,000,000	23.11.2009	23.11.2011 to 22.11.2015 ⁽⁴⁾	24.40
Bai Ying ⁽¹⁾	34,250	–	–	34,250	26.10.2006	26.10.2007 to 25.10.2012 ⁽²⁾	13.40
	3,680,000	–	–	3,680,000	18.8.2008	18.8.2010 to 17.8.2014 ⁽³⁾	22.03
	3,210,000	–	–	3,210,000	23.11.2009	23.11.2011 to 22.11.2015 ⁽⁴⁾	24.40
Wu Jingshui ⁽⁶⁾	31,500	–	–	31,500	26.10.2006	26.10.2007 to 25.10.2012 ⁽²⁾	13.40
	1,650,000	–	–	1,650,000	18.8.2008	18.8.2010 to 17.8.2014 ⁽³⁾	22.03
	1,500,000	–	–	1,500,000	23.11.2009	23.11.2011 to 22.11.2015 ⁽⁴⁾	24.40
Ding Sheng ⁽⁶⁾	24,000	–	–	24,000	26.10.2006	26.10.2007 to 25.10.2012 ⁽²⁾	13.40
	1,850,000	–	–	1,850,000	18.8.2008	18.8.2010 to 17.8.2014 ⁽³⁾	22.03
	1,800,000	–	–	1,800,000	23.11.2009	23.11.2011 to 22.11.2015 ⁽⁴⁾	24.40
Employees in Aggregate⁽¹⁾	1,930,919	(21,897) ⁽⁵⁾	(50,630)	1,858,392	26.10.2006	26.10.2007 to 25.10.2012 ⁽²⁾	13.40
	57,809,000	–	(1,280,000)	56,529,000	18.8.2008	18.8.2010 to 17.8.2014 ⁽³⁾	22.03
	74,915,000	–	(1,789,000)	73,126,000	23.11.2009	23.11.2011 to 22.11.2015 ⁽⁴⁾	24.40
	166,034,669	(21,897)	(3,119,630)	162,893,142			

Report of the Directors

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 and Bai Ying) were all deemed to be interested in an aggregate of 31,564,500 share options in the Company under the SFO as at 30 June 2010.
- (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 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.
- (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 share options will be vested in three batches with 20%, 40% and 40% of the share options granted vesting on, respectively, the second, third and fourth anniversaries of the date of the 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.
- (5) The weighted average closing price of the shares of the Company before the dates on which the options were exercised was HK\$23.96.
- (6) Mr. Yao Tongshan has resigned as executive Director with effect from 1 March 2010. On the same date, Mr. Wu Jingshui and Mr. Ding Sheng were appointed as executive Directors.

During the six months ended 30 June 2010, 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 2010, 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.

Report of the Directors

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 2010, substantially all of the Group's assets and liabilities were denominated in RMB except that cash and cash equivalents of approximately RMB2,198,198,000 (31 December 2009: RMB2,754,201,000) were denominated in United States dollars or Hong Kong dollars, and interest-bearing bank loans and long term payables aggregating to approximately RMB168,116,000 (31 December 2009: RMB261,505,000) 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 2010, the Group pledged bank deposits, bills receivable and certain property, plant and equipment aggregating approximately RMB389,175,000 (31 December 2009: RMB459,410,000). 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 27 and 28, respectively, to the interim financial statements.

CORPORATE GOVERNANCE

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

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

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 2010.

BOARD OF DIRECTORS

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

Report of the Directors

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 2010.

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

During the six months ended 30 June 2010, 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 five Non-executive Directors, three of whom are independent. The current committee members are Mr. Zhang Julin (chairman), Mr. Jiao Shuge, Mr. Ma Wangjun, Mr. Liu Fuchun and Mr. Zhang Xiaoya. 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 2010.

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, 31 August 2010

Report on Review of Interim Financial Information



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To the Board of Directors
China Mengniu Dairy Company Limited
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the accompanying interim financial information set out on pages 22 to 46 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 2010 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 of the Company 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 accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants

Hong Kong
31 August 2010

Condensed Consolidated Income Statement

	Notes	Unaudited	
		For the six months ended 30 June	
		2010	2009
		RMB'000	RMB'000
Revenue	4	14,434,223	12,097,615
Cost of sales		(10,647,051)	(8,864,575)
Gross profit		3,787,172	3,233,040
Other income and gains	4	57,242	16,625
Selling and distribution costs		(2,601,746)	(1,942,467)
Administrative expenses		(492,891)	(376,279)
Other operating expenses	5	(22,875)	(86,688)
Profit from operating activities		726,902	844,231
Interest income		39,270	16,242
Finance costs	7	(21,942)	(47,916)
Share of profits and losses of associates		5,226	7,530
Profit before tax	6	749,456	820,087
Income tax expense	8	(72,584)	(97,726)
Profit for the period		676,872	722,361
Attributable to:			
Owners of the Company		618,820	661,898
Non-controlling interests		58,052	60,463
		676,872	722,361
Earnings per share attributable to ordinary owners of the Company (expressed in RMB per share)	9		
– Basic		0.356	0.424
– Diluted		0.355	0.424

Condensed Consolidated Statement of Comprehensive Income

	Unaudited	
	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Profit for the period	676,872	722,361
Currency translation differences	(38,862)	(513)
Total comprehensive income for the period, net of tax	638,010	721,848
Attributable to:		
Owners of the Company	579,958	661,385
Non-controlling interests	58,052	60,463
	638,010	721,848

Condensed Consolidated Statement of Financial Position

		Unaudited 30 June 2010	Audited 31 December 2009
	Notes	RMB'000	RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	4,982,424	4,919,608
Construction in progress	12	293,486	326,679
Land use rights		396,987	367,191
Goodwill		199,143	199,143
Other intangible assets		29,730	31,637
Interests in associates		71,368	67,383
Available-for-sale investments		17,409	17,409
Deferred tax assets		128,846	131,741
Other financial assets		36,112	20,868
		6,155,505	6,081,659
CURRENT ASSETS			
Inventories	13	934,560	714,897
Bills receivable	14	29,682	52,449
Trade receivables	15	567,066	527,303
Prepayments and deposits	16	626,820	272,627
Other receivables		86,602	66,202
Pledged deposits	17	218,883	230,968
Cash and bank balances	17	6,562,897	6,150,021
		9,026,510	8,014,467
CURRENT LIABILITIES			
Trade payables	18	2,332,557	1,531,366
Bills payable	19	899,438	808,409
Deferred income		13,204	13,162
Accruals and customers' deposits	20	430,282	559,291
Other payables	21	998,748	1,211,172
Interest-bearing bank loans	22	446,085	323,593
Other loans		106,947	106,947
Income tax payable		24,051	–
		5,251,312	4,553,940

Condensed Consolidated Statement of Financial Position

		Unaudited 30 June 2010	Audited 31 December 2009
	Notes	RMB'000	RMB'000
NET CURRENT ASSETS		3,775,198	3,460,527
TOTAL ASSETS LESS CURRENT LIABILITIES		9,930,703	9,542,186
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	22	150,000	350,000
Long term payables	23	33,615	49,879
Deferred income		232,096	230,613
		415,711	630,492
NET ASSETS		9,514,992	8,911,694
EQUITY			
Equity attributable to owners of the Company			
Issued capital	24	178,613	178,611
Retained earnings		1,668,141	1,294,766
Other reserves	25	7,285,254	7,102,301
		9,132,008	8,575,678
Non-controlling interests		382,984	336,016
TOTAL EQUITY		9,514,992	8,911,694

Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the Company					
	Issued capital	Other reserves (Note 25)	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 2010 (unaudited)						
At 1 January 2010	178,611	7,102,301	1,294,766	8,575,678	336,016	8,911,694
Total comprehensive income for the period	-	(38,862)	618,820	579,958	58,052	638,010
Shares issued under equity-settled share option arrangements (Note 24)	2	254	-	256	-	256
Equity-settled share option arrangements	-	221,561	-	221,561	-	221,561
Dividends paid to owners of the Company	-	-	(245,445)	(245,445)	-	(245,445)
Dividends paid to non-controlling interests	-	-	-	-	(11,084)	(11,084)
At 30 June 2010	178,613	7,285,254	1,668,141	9,132,008	382,984	9,514,992

Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the Company					Non-controlling interests	Total equity
	Issued capital	Other reserves (Note 25)	Retained earnings	Total			
	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	
Total comprehensive income for the period	–	(513)	661,898	661,385	60,463	721,848	
Shares issued under equity-settled share option arrangements (Note 24)	17	2,267	–	2,284	–	2,284	
Equity-settled share option arrangements	–	137,580	–	137,580	–	137,580	
Dividends paid to non-controlling interests	–	–	–	–	(925)	(925)	
Deemed disposal of a subsidiary (Note 26)	–	–	–	–	(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 Cash Flows

	Note	Unaudited	
		For the six months ended 30 June	
		2010	2009
		RMB'000	RMB'000
Net cash inflow from operating activities		1,168,703	1,748,270
Net cash outflow from investing activities	a	(1,365,320)	(1,685,797)
Net cash outflow from financing activities		(348,740)	(917,287)
Net decrease in cash and cash equivalents		(545,357)	(854,814)
Effect of foreign exchange rate changes, net		(26,541)	(952)
Cash and cash equivalents at 1 January	17	3,986,624	2,218,965
Cash and cash equivalents at 30 June	17	3,414,726	1,363,199

Note:

- (a) The balances included the purchase of time deposits with original maturity of more than three months of RMB984,774,000 (six months ended 30 June 2009: RMB1,522,000,000) 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 2010 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 2009.

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 2009, except for the adoption of the following new or revised standards and interpretations as of 1 January 2010. The adoption of these interpretations did not have any material impact on the financial position or operating results of the Group in the unaudited interim condensed consolidated financial statements for the current period.

- *IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions*
The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.
- *IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
The amendment 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. The amendment had no effect on the financial position nor performance of the Group.
- *IFRIC 17 Distribution of Non-cash Assets to Owners*
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position nor performance of the Group.

Notes to Condensed Consolidated Financial Statements

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

Significant accounting policies *(continued)*

Improvements to IFRSs (issued May 2008)

In May 2008, the IASB issued its first omnibus of amendments to its standards. All amendments issued are effective for the Group as at 31 December 2009, apart from the following:

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: clarifies when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and had no impact on the financial position nor financial performance of the Group.

Improvements to IFRSs (issued April 2009)

In April 2009, the IASB issued its second 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 the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- *IFRS 8 Operating Segment Information*: Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 3.
- *IAS 7 Statement of Cash Flows*: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement. The Group has no such transaction in the current period.
- *IAS 36 Impairment of Assets*: The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- *IFRS 2 Share-based Payment*
- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*
- *IAS 1 Presentation of Financial Statements*
- *IAS 17 Leases*
- *IAS 38 Intangible Assets*
- *IAS 39 Financial Instruments: Recognition and Measurement*
- *IFRIC 9 Reassessment of Embedded Derivatives*
- *IFRIC 16 Hedge of a Net Investment in a Foreign Operation*

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

Notes to Condensed Consolidated Financial Statements

3. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- 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 – mainly manufacture and distribution of milk powder.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group’s profit/(loss) before tax from continuing operations except that interest income, finance costs, dividend income, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude equity investments at cost and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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.

Notes to Condensed Consolidated Financial Statements

3. SEGMENT INFORMATION *(continued)*

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 2010 (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	12,462,199	1,821,086	150,938	–	14,434,223
Intersegment sales	38,072	616	10,261	(48,949)	–
Total	12,500,271	1,821,702	161,199	(48,949)	14,434,223
Segment results					
Interest income					39,270
Finance costs					(21,942)
Share of profits and losses of associates					5,226
Unallocated corporate expenses					(207,726)
Profit before tax					749,456
Income tax expense					(72,584)
Profit for the period					676,872
At 30 June 2010 (Unaudited)					
Assets and liabilities					
Segment assets	8,884,012	1,337,590	374,831	–	10,596,433
Unallocated corporate assets					6,932,897
Intragroup elimination					(2,347,315)
Total assets					15,182,015
Segment liabilities	4,874,232	901,554	256,873	–	6,032,659
Unallocated corporate liabilities					1,981,679
Intragroup elimination					(2,347,315)
Total liabilities					5,667,023

Notes to Condensed Consolidated Financial Statements

3. SEGMENT INFORMATION (continued)

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					
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 31 December 2009 (Audited)					
Assets and liabilities					
Segment assets	8,398,855	1,172,153	336,725	–	9,907,733
Unallocated corporate assets					7,059,351
Intragroup elimination					(2,870,958)
Total assets					14,096,126
Segment liabilities	5,139,046	766,052	216,681	–	6,121,779
Unallocated corporate liabilities					1,933,611
Intragroup elimination					(2,870,958)
Total liabilities					5,184,432

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:

		Unaudited	
		For the six months ended 30 June	
		2010	2009
	Notes	RMB'000	RMB'000
Revenue		14,434,223	12,097,615
Other income and gains:			
Government grants	(a)	18,831	7,303
Amortisation of deferred income	(b)	7,384	6,521
Foreign exchange gains, net		12,741	–
Others		18,286	2,801
		57,242	16,625
		14,491,465	12,114,240

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 contingencies 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.

Notes to Condensed Consolidated Financial Statements

5. OTHER OPERATING EXPENSES

	Unaudited	
	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Write-off of inventories	–	31,273
Provision/(Write back of provision) for inventories	(50)	42,235
Donations	12,411	4,037
Loss on disposal of items of property, plant and equipment	3,120	315
Others	7,394	8,828
	22,875	86,688

6. PROFIT BEFORE TAX

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

	Unaudited	
	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Cost of inventories sold	10,647,051	8,864,575
Depreciation of property, plant and equipment	338,772	332,559
Amortisation of land use rights	4,438	3,660
Amortisation of other intangible assets	2,194	2,417
Employee benefit expense (excluding directors' fees disclosed in note 29)	767,409	625,166

7. FINANCE COSTS

	Unaudited	
	For the six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Interest on bank loans wholly repayable within five years	18,854	42,413
Interest on long term payables	3,088	5,503
	21,942	47,916

Notes to Condensed Consolidated Financial Statements

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	
	2010	2009
	RMB'000	RMB'000
Current income tax		
Current income tax charge	69,689	47,843
Deferred income tax		
Relating to origination and reversal of tax losses and temporary differences	2,895	49,883
	72,584	97,726

- (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 OWNERS OF THE COMPANY

The basic earnings per share for the period is calculated by dividing the profit for the period attributable to ordinary owners 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. For the six months ended 30 June 2010, the diluted earnings per share amount is calculated by dividing the profit for the period attributable to ordinary owners 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 OWNERS 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	
	2010	2009
	RMB'000	RMB'000
Profit attributable to ordinary owners of the Company	618,820	661,898

	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	1,737,198	1,561,663
Weighted average number of ordinary shares, assuming issued at no consideration on the deemed exercise of all share options during the period	3,560	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation	1,740,758	1,561,663

10. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: nil). During the six months ended 30 June 2010, the Company declared and paid final dividends of RMB0.1413 (six months ended 30 June 2009: nil) per share as proposed for the year ended 31 December 2009 to the shareholders of the Company.

11. PROPERTY, PLANT AND EQUIPMENT

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

	Unaudited 2010 RMB'000	Unaudited 2009 RMB'000
Carrying amount at 1 January	4,919,608	5,247,072
Additions	108,941	52,113
Transfers from construction in progress (<i>Note 12</i>)	299,398	48,247
Disposals	(6,751)	(8,833)
Deemed disposal of a subsidiary	–	(10,673)
Depreciation charge for the period	(338,772)	(332,559)
Carrying amount at 30 June	4,982,424	4,995,367

Certain property, plant and equipment of the Group with a net book value of approximately RMB158,292,000 (31 December 2009: RMB187,406,000) have been pledged to secure the long term payables of the Group (*Note 23*).

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 2010 RMB'000	Unaudited 2009 RMB'000
Carrying amount at 1 January	326,679	215,017
Additions	266,205	96,327
Transfers to property, plant and equipment (Note 11)	(299,398)	(48,247)
Carrying amount at 30 June	293,486	263,097

13. INVENTORIES

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Raw materials	556,858	507,721
Finished goods	377,702	207,176
Total inventories at the lower of cost and net realisable value	934,560	714,897

14. BILLS RECEIVABLE

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

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Within 3 months	29,647	51,949
4 – 6 months	35	500
	29,682	52,449

As at 30 June 2010, the bills receivable amounting to approximately RMB12,000,000 (31 December 2009: RMB41,036,000) were factored with recourse to financial institutions. The corresponding amounts were recorded as short term bank loans (Note 22).

The amounts due from associates of approximately RMB2,288,000 (31 December 2009: RMB5,683,000) 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 which is extendable in certain circumstances. 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 2010 RMB'000	Audited 31 December 2009 RMB'000
Within 3 months	522,044	471,122
4 – 6 months	31,783	46,112
7 – 12 months	11,402	7,243
Over 1 year	1,837	2,826
	567,066	527,303

The amounts due from associates of approximately RMB289,612,000 (31 December 2009: RMB280,354,000) are included in the above balances. 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. PREPAYMENTS AND DEPOSITS

The amount due from a jointly-controlled entity of approximately RMB35,706,000 (31 December 2009: nil) is included in the balance. This balance is unsecured, non-interest-bearing and is repayable on credit terms similar to those offered to other independent third parties of the Group.

17. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Cash and cash equivalents	3,414,726	3,986,624
Pledged deposits	218,883	230,968
Time deposits with original maturity of more than three months	3,148,171	2,163,397
	6,781,780	6,380,989
Less: Deposits pledged for banking facilities (Note 19 and Note 22)	(218,883)	(230,968)
Cash and bank balances	6,562,897	6,150,021

Notes to Condensed Consolidated Financial Statements

18. TRADE PAYABLES

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

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Within 3 months	2,274,070	1,463,848
4 – 6 months	48,496	63,708
7 – 12 months	9,175	2,868
Over 1 year	816	942
	2,332,557	1,531,366

An amount due to an associate of approximately RMB4,250,000 (31 December 2009: RMB2,000) and an amount due from a jointly-controlled entity of approximately RMB4,000 (31 December 2009: nil) are included in the above balances. 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 2010 RMB'000	Audited 31 December 2009 RMB'000
Within 3 months	565,611	712,105
4 – 6 months	333,827	96,304
	899,438	808,409

Except for an aggregate balance of approximately RMB669,436,000 (31 December 2009: RMB612,301,000) secured by the pledge of certain of the Group's deposits amounting to RMB158,363,000 (31 December 2009: RMB142,190,000), bills payable are unsecured. The above balances are non-interest-bearing.

20. ACCRUALS AND CUSTOMERS' DEPOSITS

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Advances from customers	285,602	373,939
Salary and welfare payables	144,680	185,352
	430,282	559,291

The amounts due to associates of approximately RMB80,391,000 (31 December 2009: RMB88,087,000) are included in the above balances. The balances are unsecured, non-interest-bearing and are repayable on demand.

Notes to Condensed Consolidated Financial Statements

21. OTHER PAYABLES

The amounts due to associates of approximately RMB8,590,000 (31 December 2009: RMB43,976,000) are included in the balances. The balances are unsecured, non-interest-bearing and are repayable on demand.

22. INTEREST-BEARING BANK LOANS

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Short term bank loans, secured	70,160	126,170
Short term bank loans, unsecured	375,925	197,423
Long term bank loans, unsecured	150,000	350,000
	596,085	673,593

As at 30 June 2010, short term bank loans of approximately RMB70,160,000 (31 December 2009: RMB126,170,000) were secured by certain bills receivable of the Group (Note 14) and pledged deposits (Note 17).

During the six months ended 30 June 2010, the Group obtained new bank loans amounting to approximately RMB188,458,000 (six months ended 30 June 2009: RMB593,381,000) and repaid bank loans of approximately RMB265,966,000 (six months ended 30 June 2009: RMB1,479,227,000).

During the six months ended 30 June 2010, the annual interest rates of the short term bank loans and the long term bank loans varied from 1.19% to 4.86% and 4.86% (six months ended 30 June 2009: varied from 1.19% to 6.93% and from 4.86% to 6.32%), respectively. As at 30 June 2010, the Group's interest-bearing bank loans were denominated in Renminbi, except for loans of approximately US\$11,894,000 (equivalent to approximately RMB80,770,000) (31 December 2009: US\$19,412,000) denominated in United States dollars.

The repayment schedule of the bank loans is as follows:

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Within 1 year	446,085	323,593
1 – 2 years	100,000	200,000
2 – 5 years	50,000	150,000
Total interest-bearing bank loans	596,085	673,593
Less: Amount due within 1 year included in current liabilities	(446,085)	(323,593)
	150,000	350,000

Notes to Condensed Consolidated Financial Statements

23. 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 2010 RMB'000	Audited 31 December 2009 RMB'000
Within 1 year	51,771	83,237
1 – 2 years	23,427	37,773
2 – 5 years	10,188	12,106
Total long term payables	85,386	133,116
Less: Amount due within 1 year included in current liabilities under other payables	(51,771)	(83,237)
	33,615	49,879

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

24. SHARE CAPITAL

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
<i>Authorised:</i> 3,000,000,000 ordinary shares of HK\$0.1 each	319,235	319,235

	Note	Number of ordinary shares '000	RMB'000
<i>Issued and fully paid:</i> At 1 January 2010 (Audited)		1,737,192	178,611
Shares issued under equity-settled share option arrangements	(a)	22	2
At 30 June 2010 (Unaudited)		1,737,214	178,613
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

Note:

- (a) The 21,897 (2009: 193,365) share options exercised during the period resulted in the issue of 21,897 (2009: 193,365) ordinary shares of the Company and new share capital of RMB2,000 (2009: RMB17,000) and share premium of RMB254,000 (2009: RMB2,267,000). The weighted average share price at the date of exercise for these options was HK\$23.96 (2009: HK\$18.37) per share.

Notes to Condensed Consolidated Financial Statements

25. 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 2010 (unaudited)						
At 1 January 2010	5,597,236	232,020	953,417	(141,981)	461,609	7,102,301
Shares issued under equity-settled share option arrangements (Note 24(a))	254	–	–	–	–	254
Equity-settled share option arrangements	–	–	–	–	221,561	221,561
Currency translation differences	–	–	–	(38,862)	–	(38,862)
At 30 June 2010	5,597,490	232,020	953,417	(180,843)	683,170	7,285,254

	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 24(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

Notes to Condensed Consolidated Financial Statements

26. 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	
	2010	2009
	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:

	2010	2009
	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

27. 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 2010 was approximately RMB7,167,000 (31 December 2009: RMB29,214,000). All 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.

28. 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 2010 RMB'000	Audited 31 December 2009 RMB'000
Contracted, but not provided for	340,725	204,510

29. 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	2010 RMB'000	2009 RMB'000
Sale of liquid milk products to associates	(i)	2,227,841	1,669,918
Sale of ice cream products to associates	(i)	307,983	303,637
Sale of other dairy products to associates	(i)	16,460	14,293
Sale of raw materials to a jointly-controlled entity	(ii)	29,428	24,232
Purchase of raw materials from affiliates of a major shareholder of the Company	(i)	59,343	–
Purchase of ice cream products from an associates	(i)	42,667	43,565
Purchase of raw materials from a jointly-controlled entity	(i)	8,514	–
Key management compensation	(iii)		
– directors' fees		207	133
– salaries and allowances		3,963	2,958
– retirement benefit contributions		130	135

Notes to Condensed Consolidated Financial Statements

29. 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) During the year of 2006 to 2009, 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 condensed 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 RMB42,588,000 (2009: RMB30,204,000).

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 31 August 2010.