

## Interim Results

The board of directors (the “Directors”) of China Mengniu Dairy Company Limited (the “Company”) is pleased to present the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group” or “Mengniu”) for the six months ended 30 June 2004, along with the unaudited comparative figures and selected explanatory notes, which are prepared in accordance with the International Financial Reporting Standards published by the International Accounting Standards Board, and have been reviewed by the Audit Committee of the Company.

### Condensed consolidated profit and loss account

|  | Notes | Unaudited                            |             |
|--|-------|--------------------------------------|-------------|
|  |       | For the six months ended 30 Jun 2004 | 2003        |
|  |       | RMB'000                              | RMB'000     |
| Turnover                                 | 2     | 3,472,671                            | 1,692,705   |
| Cost of sales                            |       | (2,645,737)                          | (1,266,972) |
| Gross profit                             |       | 826,934                              | 425,733     |
| Other revenue                            | 3     | 2,768                                | 1,405       |
| Selling and distribution costs           |       | (513,464)                            | (232,874)   |
| Administrative expenses                  |       | (58,266)                             | (34,368)    |
| Other operating expenses                 |       | (4,223)                              | (7,503)     |
| Profit from operating activities         | 4     | 253,749                              | 152,393     |
| Finance costs, net                       | 5     | (13,622)                             | (3,878)     |
| Share of profit of associates            |       | 1,316                                | 444         |
| Profit before tax                        |       | 241,443                              | 148,959     |
| Tax                                      | 6     | (11,240)                             | (32,230)    |
| Profit after tax                         |       | 230,203                              | 116,729     |
| Minority interests                       |       | (46,123)                             | (40,766)    |
| Net profit attributable to shareholders  |       | 184,080                              | 75,963      |
| Earnings per share — basic (RMB)         | 7     | 0.24                                 | 0.10        |
| Earnings per share — fully diluted (RMB) | 7     | 0.16                                 | N/A         |

## Condensed consolidated balance sheet

|  | <i>Notes</i> | Unaudited<br>At 30 Jun 2004<br>RMB'000 | Audited<br>At 31 Dec 2003<br>RMB'000 |
|--|--------------|--|--------------------------------------|
| <b>NON-CURRENT ASSETS</b>                    |              |  |                                      |
| Property, plant and equipment, net           | 8            | 1,602,120                              | 1,191,478                            |
| Construction in progress                     | 9            | 297,208                                | 146,016                              |
| Land use rights                              |              | 33,783                                 | 34,293                               |
| Investments in associates                    |              | 2,072                                  | 1,917                                |
| Long term investments                        |              | 3,409                                  | 3,409                                |
| Negative goodwill                            | 10           | (26,652)                               | (28,182)                             |
|  |              | <b>1,911,940</b>                       | 1,348,931                            |
| <b>CURRENT ASSETS</b>                        |              |  |                                      |
| Inventories                                  | 11           | 451,086                                | 408,790                              |
| Trade receivables                            | 12           | 294,047                                | 94,443                               |
| Prepayments, deposits and other receivables  |              | 173,045                                | 105,548                              |
| Cash and cash equivalents                    |              | 1,657,757                              | 376,598                              |
|  |              | <b>2,575,935</b>                       | 985,379                              |
| <b>CURRENT LIABILITIES</b>                   |              |  |                                      |
| Trade payables                               | 13           | 562,099                                | 427,533                              |
| Accruals and other payables                  | 14           | 596,535                                | 400,536                              |
| Short term bank loans                        | 15           | 731,224                                | 161,534                              |
| Other loans, unsecured                       |              | 27,600                                 | 27,600                               |
| Income tax payable                           |              | 2,944                                  | 7,591                                |
| Dividend payable                             |              | 73,260                                 | —                                    |
|  |              | <b>1,993,662</b>                       | 1,024,794                            |
| <b>NET CURRENT ASSETS/(LIABILITIES)</b>      |              | <b>582,273</b>                         | (39,415)                             |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |              | <b>2,494,213</b>                       | 1,309,516                            |

|  | <i>Notes</i> | <b>Unaudited<br/>At 30 Jun 2004<br/>RMB'000</b> | Audited<br>At 31 Dec 2003<br>RMB'000 |
|--|--------------|---|--------------------------------------|
| <b>NON-CURRENT LIABILITIES</b>                     |              |   |                                      |
| Long term bank loans                               | 15           | 267,500   | 226,000                              |
| Other loans, unsecured                             |              | 18,000  | 18,000                               |
| Long term other payables                           | 16           | 147,334   | 148,089                              |
| Deferred income                                    |              | 67,706  | 57,706                               |
|  |              | <b>500,540</b>                                  | 449,795                              |
| <b>MINORITY INTERESTS</b>                          |              |   |                                      |
|  |              | <b>205,468</b>                                  | 170,511                              |
|  |              | <b>1,788,205</b>                                | 689,210                              |
| <b>REPRESENTED BY:</b>                             |              |   |                                      |
| Non-voting convertible redeemable preferred shares |              | —   | 291,621                              |
| Convertible instruments                            |              | 291,621   | —                                    |
| Share capital                                      |              | 106,090   | —                                    |
| Share premium                                      |              | 1,085,394                                       | —                                    |
| Other shareholder's equity                         |              | —   | 335,729                              |
| Retained profits                                   |              | 305,100   | —                                    |
| Final dividends                                    |              | —   | 61,860                               |
|  |              | <b>1,788,205</b>                                | 689,210                              |

#### Condensed Consolidated Statement of Changes in Equity

|   | <b>Unaudited<br/>For the six months ended 30 Jun</b> |                 |
|---|--|-----------------|
|   | <b>2004<br/>RMB'000</b>                              | 2003<br>RMB'000 |
| At 1 January                            | 689,210  | 233,217         |
| Issuance of shares                      | 976,775  | —               |
| Dividend                                | (61,860)   | —               |
| Net profit attributable to shareholders | 184,080  | 75,963          |
| At 30 June                              | <b>1,788,205</b>                                     | 309,180         |

## Condensed consolidated cash flow statement

|  | Unaudited                       |           |
|--|---------------------------------|-----------|
|  | For the six months ended 30 Jun |           |
|  | 2004                            | 2003      |
|  | RMB'000                         | RMB'000   |
| Net cash from operating activities     | 172,028                         | 88,974    |
| Net cash used in investing activities  | (477,774)                       | (141,589) |
| Net cash from financing activities     | 1,586,905                       | 346,808   |
| Increase in cash and cash equivalents  | 1,281,159                       | 294,193   |
| Cash and cash equivalents at 1 January | 376,598                         | 155,115   |
| Cash and cash equivalents at 30 June   | 1,657,757                       | 449,308   |

### 1. Basis of presentation

The Company was incorporated in the Cayman Islands on 16 February 2004 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Group engages in the manufacture and distribution of dairy products and the Group's operations are principally located in the People's Republic of China. The Company became the holding company of the Group pursuant to the group reorganisation that was completed on 14 May 2004 (the "Reorganisation"). The shares of the Company were admitted to listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 June 2004 (the "Listing").

The unaudited condensed interim financial statements have been prepared by adopting the pooling method of accounting as a result of the Reorganisation which resulted in an exchange of shares held by the shareholders of China Dairy Holdings for the shares issued by the Company in exact proportions and class of shares of China Dairy Holdings. In this regard, the Company has been considered as the holding company of China Dairy Holdings and its subsidiaries (the "China Dairy Holdings Subsidiaries") since completion of the Reorganisation, save for the China Dairy Holdings Subsidiaries which were established, incorporated or acquired subsequently.

The unaudited condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards, which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The details of the Reorganisation, the accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the preparation of the Accountants' Report as set out in Appendix I of the prospectus issued by the Company dated 1 June 2004 (the "Prospectus").

## 2. Segmental information

The turnover and net profit attributable to shareholders of the Group by products are as follows:

|   | <b>Unaudited</b>                       |           |
|---|--|-----------|
|   | <b>For the six months ended 30 Jun</b> |           |
|   | <b>2004</b>                            | 2003      |
|   | <b>RMB'000</b>                         | RMB'000   |
| Segment revenue:                        |  |           |
| Liquid milk                             | <b>2,737,765</b>                       | 1,390,856 |
| Ice cream                               | <b>487,597</b>                         | 264,705   |
| Other dairy products                    | <b>247,309</b>                         | 37,144    |
| Combined revenue                        | <b>3,472,671</b>                       | 1,692,705 |
| Segment net profit:                     |  |           |
| Liquid milk                             | <b>221,654</b>                         | 146,318   |
| Ice cream                               | <b>27,138</b>                          | 20,594    |
| Other dairy products                    | <b>30,679</b>                          | 1,419     |
|   | <b>279,471</b>                         | 168,331   |
| Unallocated corporate expenses          | <b>(25,722)</b>                        | (15,938)  |
| Profit from operating activities        | <b>253,749</b>                         | 152,393   |
| Finance costs, net                      | <b>(13,622)</b>                        | (3,878)   |
| Share of profits of associates          | <b>1,316</b>                           | 444       |
| Profit before tax                       | <b>241,443</b>                         | 148,959   |
| Tax                                     | <b>(11,240)</b>                        | (32,230)  |
| Profit after tax                        | <b>230,203</b>                         | 116,729   |
| Minority interests                      | <b>(46,123)</b>                        | (40,766)  |
| Net profit attributable to shareholders | <b>184,080</b>                         | 75,963    |

|                                   | <b>Unaudited</b><br><b>At 30 Jun 2004</b><br><b>RMB'000</b> | Audited<br>At 31 Dec 2003<br>RMB'000 |
|-----------------------------------|---|--------------------------------------|
| Segment assets:                   |   |                                      |
| Liquid milk                       | <b>2,245,680</b>  | 1,783,503                            |
| Ice cream                         | <b>655,870</b>  | 269,207                              |
| Other dairy products              | <b>260,480</b>  | 68,381                               |
| Unallocated corporate assets      | <b>1,325,845</b>  | 213,210                              |
| Combined total assets             | <b>4,487,875</b>  | 2,334,310                            |
| Segment liabilities:              |   |                                      |
| Liquid milk                       | <b>1,289,970</b>  | 752,213                              |
| Ice cream                         | <b>290,592</b>  | 156,929                              |
| Other dairy products              | <b>170,807</b>  | 37,650                               |
| Unallocated corporate liabilities | <b>742,833</b>  | 527,797                              |
| Combined total liabilities        | <b>2,494,202</b>  | 1,474,589                            |

|                      | <b>Unaudited</b><br><b>For the six months ended 30 Jun</b> |                 |
|----------------------|--|-----------------|
|                      | <b>2004</b><br><b>RMB'000</b>                              | 2003<br>RMB'000 |
| Capital expenditure: |  |                 |
| Liquid milk          | <b>378,098</b>   | 302,168         |
| Ice cream            | <b>147,610</b>   | 76,172          |
| Other dairy products | <b>27,231</b>  | 1,383           |
| Others               | <b>8,895</b>   | 2,036           |
|                      | <b>561,834</b>   | 381,759         |
| Depreciation:        |  |                 |
| Liquid milk          | <b>52,819</b>  | 16,099          |
| Ice cream            | <b>13,710</b>  | 4,992           |
| Other dairy products | <b>619</b>   | 38              |
| Others               | <b>637</b>   | 1,127           |
|                      | <b>67,785</b>  | 22,256          |

### 3. Revenue

The revenue and other revenue of the Group are as follows:

|                       | Unaudited                       |           |
|-----------------------|---------------------------------|-----------|
|                       | For the six months ended 30 Jun |           |
|                       | 2004                            | 2003      |
|                       | RMB'000                         | RMB'000   |
| Revenue               | 3,472,671                       | 1,692,705 |
| Other revenue         |                                 |           |
| Government grants     | 1,053                           | 453       |
| Goodwill amortisation | 1,530                           | 820       |
| Others                | 185                             | 132       |
| Total revenue         | 3,475,439                       | 1,694,110 |

### 4. Profit from operating activities

Profit from operating activities is arrived at after charging/(crediting):

|   | Unaudited                       |           |
|---|---------------------------------|-----------|
|   | For the six months ended 30 Jun |           |
|   | 2004                            | 2003      |
|   | RMB'000                         | RMB'000   |
| Cost of inventories sold                          | 2,645,737                       | 1,266,972 |
| Staff costs                                       | 97,903                          | 43,998    |
| Depreciation                                      | 67,785                          | 22,256    |
| Loss on disposal of property, plant and equipment | 169                             | 66        |
| Amortisation of land use rights                   | 442                             | 191       |
| Exchange gain                                     | (453)                           | (20)      |

## 5. Finance costs, net

|                                      | Unaudited<br>For the six months ended 30 Jun |         |
|--------------------------------------|--|---------|
|                                      | 2004   | 2003    |
|                                      | RMB'000                                      | RMB'000 |
| Interest on bank loans               |  |         |
| — wholly repayable within five years | 16,599                                       | 5,188   |
| Less: Amounts capitalised            | (1,786)                                      | (449)   |
|                                      | 14,813                                       | 4,739   |
| Interest income                      | (1,191)                                      | (861)   |
| Financial costs, net                 | 13,622                                       | 3,878   |

The amounts capitalised are borrowing costs related to funds borrowed specifically for the purpose of obtaining qualifying assets. The interest rates on such capitalised borrowings during the periods varied from 4.8% to 5.3% per annum.

## 6. Tax

|                                 | Unaudited<br>For the six months ended 30 Jun |         |
|---------------------------------|--|---------|
|                                 | 2004   | 2003    |
|                                 | RMB'000                                      | RMB'000 |
| PRC enterprise income tax       | 10,339                                       | 32,083  |
| Share of taxation of associates | 901  | 147     |
|                                 | 11,240                                       | 32,230  |

(a) No provision for Hong Kong profits tax has been made in the accounts as the Group has no assessable profits in Hong Kong during the period.

(b) The tax charge represents the PRC income tax provision for the periods at the prevailing tax rates applicable thereto.

## 7. Earnings per share

The calculation of the basic earnings per share for the six months ended 30 June 2004 is based on the Group's net profit attributable to shareholders of RMB184,080,000 (2003: RMB75,963,000) and the weighted average number of 781,593,407 ordinary shares (2003: 750,000,000 ordinary shares deemed issued).



The calculation of the diluted earnings per share for six months ended 30 June 2004 is based on the Group's net profit attributable to shareholders of RMB184,080,000 and the weighted average number of 1,150,009,880 shares in issue (assuming full conversion of all outstanding convertible instruments on 1 January 2004).

## 8. Property, plant and equipment

|   | <b>Buildings<br/>and<br/>structures</b> | <b>Plant and<br/>machinery</b> | <b>Office<br/>equipment</b> | <b>Motor<br/>vehicles</b> | <b>Total</b> |
|---|---|--------------------------------|-----------------------------|---------------------------|--------------|
|   | RMB'000                                 | RMB'000                        | RMB'000                     | RMB'000                   | RMB'000      |
| Cost:                                   |   |                                |                             |                           |              |
| At 1 January 2004                       | 305,576                                 | 907,363                        | 47,181                      | 35,339                    | 1,295,459    |
| Additions                               | 95,103                                  | 150,206                        | 11,737                      | 3,049                     | 260,095      |
| Transfers from construction in progress | 70,039                                  | 145,690                        | 2,159                       | 558                       | 218,446      |
| Disposals                               | —                                       | (295)                          | —                           | (9)                       | (304)        |
| At 30 June 2004                         | 470,718                                 | 1,202,964                      | 61,077                      | 38,937                    | 1,773,696    |
| Accumulated depreciation:               |   |                                |                             |                           |              |
| At 1 January 2004                       | 10,772                                  | 83,681                         | 5,148                       | 4,380                     | 103,981      |
| Charged for the year                    | 7,884                                   | 50,952                         | 4,964                       | 3,985                     | 67,785       |
| Written back on disposal                | —                                       | (183)                          | —                           | (7)                       | (190)        |
| At 30 June 2004                         | 18,656                                  | 134,450                        | 10,112                      | 8,358                     | 171,576      |
| Net book value:                         |   |                                |                             |                           |              |
| At 30 June 2004                         | 452,062                                 | 1,068,514                      | 50,965                      | 30,579                    | 1,602,120    |

The Group's buildings are located in the PRC.

Certain property, plant and equipment of the Group with a carrying value amounting to RMB396,698,830 (31 December 2003: RMB372,771,000) have been pledged to secure the outstanding payable amounts of the Group, as set out under Note 16, "Long term other payables".

## 9. Construction in progress

|  | Unaudited<br>At 30 Jun 2004<br>RMB'000 | Audited<br>At 31 Dec 2003<br>RMB'000 |
|--|--|--------------------------------------|
| At 1 January 2004                            | 146,016                                | 68,288                               |
| Additions                                    | 369,638                                | 579,471                              |
| Transferred to property, plant and equipment | (218,446)                              | (501,743)                            |
| At 30 June 2004                              | 297,208                                | 146,016                              |

The Group's construction in progress is located in the PRC.

## 10. Negative goodwill

|                           | Unaudited<br>At 30 Jun 2004<br>RMB'000 | Audited<br>At 31 Dec 2003<br>RMB'000 |
|---------------------------|--|--------------------------------------|
| Cost:                     |  |                                      |
| At 1 January 2004         | 30,584                                 | 16,379                               |
| Additions                 | —                                      | 14,205                               |
| At 30 June 2004           | 30,584                                 | 30,584                               |
| Accumulated amortisation: |  |                                      |
| At 1 January 2004         | 2,402                                  | 409                                  |
| Credit for the period     | 1,530                                  | 1,993                                |
| At 30 June 2004           | 3,932                                  | 2,402                                |
| Net book value:           |  |                                      |
| At 30 June 2004           | 26,652                                 | 28,182                               |

Negative goodwill is amortised over 10 years, being the approximately amortisable life of the Group's amortisable assets.

## 11. Inventories

|                   | <b>Unaudited</b><br><b>At 30 Jun 2004</b><br><b>RMB'000</b> | Audited<br>At 31 Dec 2003<br>RMB'000 |
|-------------------|---|--------------------------------------|
| Raw materials     | 185,362   | 304,860                              |
| Finished goods    | 265,724   | 103,930                              |
| Total inventories | <b>451,086</b>  | 408,790                              |

No inventories carried at net realisable value were included in the above balances.

## 12. Trade receivables

An aged analysis of the trade receivables of the Group with a normal credit period of not more than 30 days is as follows:

|                                    | <b>Unaudited</b><br><b>At 30 Jun 2004</b><br><b>RMB'000</b> | Audited<br>At 31 Dec 2003<br>RMB'000 |
|------------------------------------|---|--------------------------------------|
| Outstanding balances aged:         |   |                                      |
| Within 3 months                    | 278,269   | 97,030                               |
| Between 4 to 6 months              | 20,448  | 2,083                                |
|                                    | <b>298,717</b>  | 99,113                               |
| Less: Provision for doubtful debts | <b>(4,670)</b>  | (4,670)                              |
|                                    | <b>294,047</b>  | 94,443                               |

The amounts due from related parties included in the above can be analysed as follows:

|            | <b>Unaudited</b><br><b>At 30 Jun 2004</b><br><b>RMB'000</b> | Audited<br>At 31 Dec 2003<br>RMB'000 |
|------------|---|--------------------------------------|
| Associates | <b>20,384</b>   | 3,623                                |

The balances are unsecured, non-interest bearing and are repayable on demand on credit terms similar to those offered to other major customers of the Group.

### 13. Trade payables

An aged analysis of the trade payables of the Group is as follows:

|                            | <b>Unaudited</b><br><b>At 30 Jun 2004</b><br><b>RMB'000</b> | Audited<br>At 31 Dec 2003<br>RMB'000 |
|----------------------------|---|--------------------------------------|
| Outstanding balances aged: |   |                                      |
| Within 90 days             | <b>448,336</b>  | 351,848                              |
| Between 91 to 180 days     | <b>110,070</b>  | 65,255                               |
| Between 181 to 360 days    | <b>2,922</b>  | 9,532                                |
| Over 360 days              | <b>771</b>  | 898                                  |
|                            | <b>562,099</b>  | 427,533                              |

The amounts due to a related party included in the above can be analysed as follows:

|                 | <b>Unaudited</b><br><b>At 30 Jun 2004</b><br><b>RMB'000</b> | Audited<br>At 31 Dec 2003<br>RMB'000 |
|-----------------|---|--------------------------------------|
| A related party | <b>5,770</b>  | 4,134                                |

The related party represents Chaozhou Yangtian Printing Co., Ltd., which is controlled and beneficially owned by a shareholder of the Company.

The balances are unsecured, non-interest bearing and are repayable on demand.

### 14. Accruals and other payables

|   | <b>Unaudited</b><br><b>At 30 Jun 2004</b><br><b>RMB'000</b> | Audited<br>At 31 Dec 2003<br>RMB'000 |
|---|---|--------------------------------------|
| Advances from customers                     | <b>87,855</b>   | 65,464                               |
| Salary payables                             | <b>29,800</b>   | 21,232                               |
| Welfare payables                            | <b>5,994</b>  | 4,214                                |
| Value added tax payables                    | <b>(4,682)</b>  | (3,647)                              |
| Other tax payables                          | <b>1,071</b>  | 506                                  |
| Other payables                              | <b>346,488</b>  | 204,397                              |
| Current portion of long term other payables | <b>61,299</b>   | 87,146                               |
| Other accruals                              | <b>68,710</b>   | 21,224                               |
|   | <b>596,535</b>  | 400,536                              |

The amounts due to related parties included in the above can be analysed as follows:

|                 | <i>Note</i> | <b>Unaudited<br/>At 30 Jun 2004<br/>RMB'000</b> | Audited<br>At 31 Dec 2003<br>RMB'000 |
|-----------------|-------------|---|--------------------------------------|
| An associate    |             | <b>533</b>                                      | 2,058                                |
| A related party | <i>(a)</i>  | <b>2,470</b>                                    | 2,152                                |
|                 |             | <b>3,003</b>                                    | 4,210                                |

(a) The related party represents Inner Mongolia Jiuqiang Machinery Co., Ltd., which is controlled and owned as to 90% by a director and shareholder of Inner Mongolia Mengniu Milk Industry (Group) Co., Ltd.

The balances are unsecured, non-interest bearing and are repayable on demand.

#### 15. Interest bearing bank loans

|                                 | <b>Unaudited<br/>At 30 Jun 2004<br/>RMB'000</b> | Audited<br>At 31 Dec 2003<br>RMB'000 |
|---------------------------------|---|--------------------------------------|
| Short term unsecured bank loans | <b>731,224</b>                                  | 161,534                              |
| Long term unsecured bank loans  | <b>267,500</b>                                  | 226,000                              |
|                                 | <b>998,724</b>                                  | 387,534                              |

The repayment schedule of the long term bank loans is as follows:

|                                   | <b>Unaudited<br/>At 30 Jun 2004<br/>RMB'000</b> | Audited<br>At 31 Dec 2003<br>RMB'000 |
|-----------------------------------|---|--------------------------------------|
| Within one year                   | —   | —                                    |
| Between one to two years          | <b>60,000</b>                                   | —                                    |
| Between two to five years         | <b>207,500</b>                                  | 226,000                              |
| Total interest bearing bank loans | <b>267,500</b>                                  | 226,000                              |

## 16. Long term other payables

The Group's long term other payables represent outstanding instalments payable for the purchase of plant and machinery. The balances are interest-free and are repayable as follows:

|   | Unaudited<br>At 30 Jun 2004<br>RMB'000 | Audited<br>At 31 Dec 2003<br>RMB'000 |
|---|--|--------------------------------------|
| Within one year   | 61,299                                 | 87,146                               |
| Between one to two years  | 51,452                                 | 58,809                               |
| Between two to five years   | 95,882                                 | 89,280                               |
| Total long term other payables  | 208,633                                | 235,235                              |
| Less: Amount due within one year included in current liabilities ( <i>note 14</i> ) | (61,299)                               | (87,146)                             |
|   | 147,334                                | 148,089                              |

## 17. Contingent liabilities

The Group is contingently liable in respect of four guarantee contracts with a bank in favour of certain suppliers of raw milk ("Suppliers") in respect of certain bank loans granted to those Suppliers. The outstanding bank loans as at 30 June 2004 amounted to RMB83,000,000. The guarantees are solely given by the Inner Mongolia Mengniu Milk Industry (Group) Co., Ltd., but the guarantees are counter-guaranteed by these Suppliers who are independent third parties. Securities under these counter-guarantees included property, dairy cattle and other assets owned by these Suppliers.

## 18. Commitments

The Group has the following outstanding capital commitments in respect of the purchase/construction of plant, machinery and buildings at the end of each of the periods:

|                                    | Unaudited<br>At 30 Jun 2004<br>RMB'000 | Audited<br>At 31 Dec 2003<br>RMB'000 |
|------------------------------------|--|--------------------------------------|
| Contracted, but not provided for   | 305,416                                | 214,558                              |
| Authorised, but not contracted for | 632,443                                | 601,786                              |
|                                    | 937,859                                | 816,344                              |

## 19. Related party transactions

The Group had the following material transactions with related parties:

| Name of related parties   | Relationship with the Group | Nature of transactions  | Notes | Unaudited                            |         |
|---|-----------------------------|---|-------|--------------------------------------|---------|
|   |                             |   |       | For the six months ended 30 Jun 2004 | 2003    |
|   |                             |   |       | RMB'000                              | RMB'000 |
| <b>Continuing transactions</b>                                  |                             |   |       |                                      |         |
| Shanghai Mengniu Dairy Co., Ltd.<br>(上海蒙牛乳業有限公司)                | Associate                   | Sale of liquid milk   | (a)   | —                                    | 100,596 |
| Guangzhou Mengniu Dairy Trading Co., Ltd.<br>(廣州市蒙牛乳業貿易有限公司)    | Associate                   | Sale of liquid milk   | (a)   | 87,695                               | 55,328  |
| Fuzhou Mengxin Trading Co., Ltd.<br>(福州蒙鑫貿易有限公司)                | Associate                   | Sale of liquid milk   | (a)   | 84,896                               | 39,313  |
| Shijiazhuang Mengniu Ice Cream Sales Co., Ltd. (石家莊蒙牛冰淇淋銷售有限公司) | Associate                   | Sale of ice cream   | (a)   | 6,642                                | 4,479   |
| Tianjin Mengniu Ice Cream Sales Co., Ltd.<br>(天津蒙牛冰淇淋銷售有限責任公司)  | Associate                   | Sale of ice cream   | (a)   | 7,766                                | —       |
| Wuhan Mengniu Dairy Co., Ltd.<br>(武漢蒙牛乳業有限公司)                   | Associate                   | Sale of liquid milk   | (a)   | 27,144                               | 11,273  |
| Inner Mongolia Jiuqiang Machinery Co., Ltd. (c) (內蒙古九強機械有限公司)   | Related party               | Purchase of equipment   | (a)   | 12,564                               | 10,346  |
| Zhejiang Xinchun Food Co., Ltd. (d)<br>(浙江新辰食品有限公司)             | Related party               | Rental of warehouse and provision of electricity, water and gas | (b)   | 3,172                                | 1,201   |
| Chaozhou Yangtian Printing Co., Ltd. (e)<br>(潮州陽天印務有限公司)        | Related party               | Purchase of packaging materials                                 | (a)   | 12,594                               | 8,621   |

Notes:

- (a) The price was determined with reference to the then prevailing market price/rates and the price charged to third parties.
- (b) The consideration was in accordance with the terms of the underlying agreement. In the opinion of the Directors, after taking into consideration of the opinion from the independent valuer, the rental is considered fair and reasonable.
- (c) Inner Mongolia Jiuqiang Machinery Co., Ltd. is controlled and beneficially owned by a director of a major subsidiary of the Group and shareholder of the Company.
- (d) Zhejiang Xinchun Food Co., Ltd. is a minority shareholder of a subsidiary of the Group.
- (e) Chaozhou Yangtian Printing Co., Ltd. is controlled and beneficially owned by a substantial shareholder of the Company.

In the opinion of the Directors, the above transactions were conducted in the ordinary course of business.