

Financial Review

Mengniu enjoyed robust growth during the first half of 2004. Mengniu's turnover grew 105.2% over the same period in 2003, climbing to RMB3,472.7 million. Net profit attributable to shareholders increased by 142.3% over the same period last year to reach RMB184.1 million. Basic earnings per share was RMB0.24, while fully diluted earnings per share was RMB0.16.

The Company was listed on the Main Board of the Stock Exchange on 10 June 2004, which marked an important milestone for its corporate development. Its global offering was a great success. The international offering was significantly over-subscribed whilst the Hong Kong public offering was 205 times over-subscribed.

Gross Profit

Strong sales growth drove Mengniu's gross profit up by 94.2% to RMB826.9 million. Nevertheless, overall gross margin decreased slightly by 140 basis points from 25.2% to 23.8%, as a result of higher depreciation expenses charged to cost of goods sold and lower average selling price for liquid milk and ice cream. Gross profit margin before depreciation expenses charged to cost of goods sold was 25.1%, a 100 basis points decrease from the same period in 2003.

Operating Expenses

The total operating expenses as a percentage of total turnover during the period remained relatively stable at 16.6%, against 16.2% in the corresponding period in 2003. Effective management controls facilitated savings on administrative and other operating expenses, which accounted for 1.8% of total turnover in 2004 against 2.5% in 2003. At the same time, selling and distribution cost increased from 13.8% to 14.8% of turnover due to increased cost in transportation and sales and distribution network development.

Profit from operating activities

EBITDA during the period amounted to RMB321.8 million and EBITDA margin decreased to 9.3% by 10 basis points for the same period in 2003. The decrease in EBITDA margin was less than the decrease in gross profit margin, indicating a better cost control.

Net Profit

Mengniu's net profit attributable to shareholders reached RMB184.1 million, an increase of 142.3%, over the same period in 2003. Net profit for the first half of 2004 was above the net profit recorded for the full year of 2003 by 12%.

Mengniu enjoyed a lower effective tax rate of 4.7% in the first half of 2004, as tax exemptions were approved by local tax bureaus in accordance with China's tax policies, to additional subsidiaries during the period. The tax benefits had positively contributed to the bottom line during the period.

At the time of its Listing, Mengniu set forth a forecast combined net profit after taxation and minority interests but before extraordinary items for the year ending 31 December 2004 of not less than RMB300 million. With 61% of its total forecasted profit achieved, the Directors are confident in achieving the projected results for the year.

Capital Structure, Liquidity & Financial Resources

The Group's cash and bank balances amounted to approximately RMB1,657.8 million as at 30 June 2004, of which approximately RMB976.8 million were net proceeds from the global offering in June 2004. Net cash from operating activities amounted to RMB172.0 million which is an increase of 93.3% compared with the same period in 2003.

As a result of the Reorganisation and the Listing, the shareholders' fund increased from RMB689.2 million as at 31 December 2003 to RMB1,788.2 million as at 30 June 2004.

Net finance cost for the period under review amounted to RMB13.6 million, an increase from RMB3.9 million over the same period in 2003, as a result of an increase in interest-bearing loans.

The total debt to capital ratio of the Group was 36.9% as at 30 June 2004, compared with 38.6% as at 31 December 2003.