## 1. Basis of preparation and accounting policies

The unaudited condensed consolidated financial information has been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB").

The condensed consolidated financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of the condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December 2004, except for the changes discussed below following the adoption of the new/revised International Financial Reporting Standards and International Accounting Standards ("new IFRSs") which are effective for accounting periods commencing on or after 1 January 2005.

The interim financial information has been prepared in accordance with the IFRSs in issue and mandatory as at the time of preparing these information (August 2005).

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in Note 2 below.

## 2. Impact of adoption of new IFRSs

### (a) *Effect of adopting new IFRSs*

In 2005, the Group adopted the following new IFRSs, which are relevant to its operations.

| | |
|---|---|
| IAS 1 | Presentation of Financial Statements |
| IAS 2 | Inventories |
| IAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| IAS 10 | Events after the Balance Sheet Date |
| IAS 16 | Property, Plant and Equipment |
| IAS 17 | Leases |
| IAS 21 | The Effects of Changes in Foreign Exchange Rates |
| IAS 24 | Related Party Disclosures |
| IAS 27 | Consolidated and Separate Financial Statements |
| IAS 28 | Investments in Associates |
| IAS 32 | Financial Instruments: Disclosures and Presentation |
| IAS 33 | Earnings per Share |
| IAS 39 | Financial Instruments: Recognition and Measurement |
| IFRS 2 | Share-based Payments |
| IFRS 5 | Non-current Assets Held for Sale and Discontinued Operations |

The adoption of the above new IFRSs did not result in substantial changes to the Group's accounting policies nor any significant financial impact to the Group. In summary:

— IAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures.

— IAS 2, 8, 10, 16, 17, 24, 27, 28, 32, 33 and 39 had no material effect on the Group's accounting policies.

— IAS 21 requires the goodwill to be allocated to foreign operations and carried at that foreign operation's functional currency. Goodwill and fair value adjustments are translated at closing rate. Such change had no material effect on the Group's accounting policies.

— IFRS 2 requires the cost of share options and other share-based incentives to be expensed in the income statement when the Group receives goods or services as consideration. Although the Company's share option scheme was approved on 28 June 2005, no share options or other share-based incentives have been granted during the period. Therefore, IFRS 2 had no material effect on the Group.

— IFRS 5 requires those non-current assets held for sale to be presented separately in the balance sheet. Such assets are measured at the lower of carrying amount and fair value less costs to sell and are not depreciated. IFRS 5 had no material effect on the Group.

**(b)** ***New accounting policy***

The accounting policies used for the condensed consolidated financial information for the six months ended 30 June 2005 are the same as those set out in Note 3 to the 2004 annual financial statements, except that the policy on "foreign currency translation" has been amended to align with the new wording adopted in the revised IAS 21:

*Foreign currency translation*

The Company and each of its subsidiaries determine its functional currency based on the assessment of each company's specific facts and circumstances. The Company chooses Renminbi ("RMB") as the presentation currency for the financial statements of the Group and the Company. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of companies whose functional currency differs from the presentation currency are translated into the presentation currency of the Group at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the reporting period. The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation shall be recognised in the income statement.

**(c) *Impact of standards issued but not yet effective***

The Group has not early adopted any of the following new or revised standards or interpretations that have been issued but are not yet effective. The adoption of such standards or interpretations will not result in substantial changes to the Group's accounting policies.

| | |
|---|---|
| IAS 19 (Amendment) | Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures |
| IFRS 6 | Exploration for and Evaluation of Mineral Resources |
| IFRIC 4 | Determining whether an Arrangement Contains A Lease |
| IFRIC 5 | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |

## 3. Segment information

The Group's operating businesses are organised and managed separately according to the nature of the products, with each segment representing a strategic business segment that offers different products in the PRC market. The liquid milk products segment carries out the business of the manufacture and distribution of UHT milk, milk beverages and yogurt. The ice cream products segment carries out the business of the manufacture and distribution of ice cream products. The other dairy products segment carries out the business of the manufacture and distribution of milk powder and milk tablet products.

The Group's revenue, expenses, results, assets and liabilities and capital expenditure were principally generated in the PRC. Accordingly, an analysis of the Group's revenue, expenses, assets and liabilities and capital expenditure by geographical segment is not presented in this report.

The revenue and net profit by products are as follows:

| | Unaudited For the six months ended 30 Jun | |
|---|---|---|
| | **2005** | 2004 |
| | **RMB'000** | RMB'000 |
| Segment revenue: | | |
| Liquid milk | **3,951,460** | 2,737,765 |
| Ice cream | **694,101** | 487,597 |
| Other dairy products | **108,481** | 247,309 |
| Consolidated revenue | **4,754,042** | 3,472,671 |
| Segment net profit: | | |
| Liquid milk | **306,639** | 221,654 |
| Ice cream | **49,723** | 27,138 |
| Other dairy products | **5,620** | 30,679 |
| Consolidated net profit | **361,982** | 279,471 |
| Unallocated corporate expenses | **(17,883)** | (25,722) |
| Profit from operating activities | **344,099** | 253,749 |
| Finance costs, net | **(12,892)** | (13,622) |
| Share of (loss)/profit of associates | **(4,710)** | 415 |
| Profit before tax | **326,497** | 240,542 |
| Income tax expense | **(26,445)** | (10,339) |
| Net profit for the period | **300,052** | 230,203 |

| | Unaudited At 30 Jun 2005 RMB'000 | Audited At 31 Dec 2004 RMB'000 |
|---|---|---|
| Segment assets: | | |
| Liquid milk | 3,746,576 | 3,492,377 |
| Ice cream | 884,730 | 585,881 |
| Other dairy products | 200,697 | 285,661 |
| Unallocated corporate assets | 1,060,647 | 808,970 |
| Eliminations | (283,518) | (410,775) |
| Consolidated total assets | 5,609,132 | 4,762,114 |
| Segment liabilities: | | |
| Liquid milk | 2,244,021 | 2,229,560 |
| Ice cream | 440,119 | 170,511 |
| Other dairy products | 107,308 | 161,876 |
| Unallocated corporate liabilities | 593,224 | 307,814 |
| Eliminations | (283,518) | (410,775) |
| Consolidated total liabilities | 3,101,154 | 2,458,986 |

| | Unaudited For the six months ended 30 Jun | |
|---|---|---|
| | 2005 RMB'000 | 2004 RMB'000 |
| Capital expenditure: | | |
| Liquid milk | 355,276 | 378,098 |
| Ice cream | 149,014 | 147,610 |
| Other dairy products | 14,074 | 27,231 |
| Others | 15,480 | 8,895 |
| | 533,844 | 561,834 |
| Depreciation: | | |
| Liquid milk | 94,468 | 52,819 |
| Ice cream | 22,976 | 13,710 |
| Other dairy products | 3,692 | 619 |
| Others | 4,465 | 637 |
| | 125,601 | 67,785 |

## 4. Revenue

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 and other income is as follows:

| | | Unaudited | |
|---|---|---|---|
| | | For the six months ended 30 Jun | |
| | | 2005 | 2004 |
| | *Notes* | RMB'000 | RMB'000 |
| Revenue | | 4,754,042 | 3,472,671 |
| Other income | | | |
| Government grants | *(a)* | 1,775 | 1,053 |
| Amortisation of deferred income | *(b)* | 2,072 | — |
| Others | | 1,989 | 1,715 |
| | | 5,836 | 2,768 |
| Total revenue | | 4,759,878 | 3,475,439 |

(a) Government grants have been received for the Group's contribution to the local economy with respect to the establishment of infrastructure relating to the dairy products industry. There are no unfulfilled conditions or contingences attaching to these grants.

(b) The Group has received certain government grants in the form of fixed asset donations or cash donations to purchase fixed assets. The grants are recorded as deferred income and amortised to match the depreciation charge of the fixed assets in accordance with assets' useful lives.

## 5. Profit from operating activities

Profit from operating activities is arrived at after charging:

| | Unaudited | |
|---|---|---|
| | For the six months ended 30 Jun | |
| | 2005 | 2004 |
| | RMB'000 | RMB'000 |
| Staff costs, excluding directors' remuneration as disclosed in Note 21 | 174,625 | 97,903 |
| Depreciation on property, plant and equipment | 125,601 | 67,785 |
| Amortisation of land use rights | 527 | 442 |
| Write-down of inventories | 5,091 | — |
| Cost of inventories sold | 3,687,747 | 2,645,737 |

### 6. Finance costs, net

| | Unaudited For the six months ended 30 Jun 2005 RMB'000 | 2004 RMB'000 |
|---|---|---|
| Interest on bank loans | | |
| — wholly repayable within 5 years | **20,461** | 16,599 |
| Less: Amounts capitalised | **(1,506)** | (1,786) |
| | **18,955** | 14,813 |
| Interest income | **(6,063)** | (1,191) |
| Finance costs, net | **12,892** | 13,622 |

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 period varied from 2.9% to 5.0% per annum (six months ended 30 June 2004: 4.8% to 5.3% per annum).

### 7. Income tax expense

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

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

(c) The share of associates' taxation for the six months ended 30 June 2005 of RMB653,000 (six months ended 30 June 2004: RMB901,000) is included in the income statement as share of profit or loss of associates.

### 8. Earnings per share

The calculation of the basic earnings per share for the six months ended 30 June 2005 is based on the net profit from ordinary activities attributable to equity holders of the Company of RMB246,527,000 (six months ended 30 June 2004: RMB184,080,000) and the weighted average number of ordinary shares of 1,131,897,000 (six months ended 30 June 2004: 781,593,000) outstanding during the period.

The calculation of the diluted earnings per share for six months ended 30 June 2005 is based on the net profit from ordinary activities attributable to equity holders of the Company of RMB246,527,000 (six months ended 30 June 2004: RMB184,080,000) and the weighted average number of ordinary shares outstanding during the period (adjusted for the effects of dilutive potential ordinary shares) of 1,368,416,000 (six months ended 30 June 2004: 1,150,010,000).

A reconciliation of the weighted average number of shares used in calculating the basic and diluted earnings per share is as follows:

| | Unaudited For the six months ended 30 Jun | |
|---|---|---|
| | **2005** | 2004 |
| | **Number of '000 shares** | Number of '000 shares |
| Weighted average number of ordinary shares for the purpose of basic earnings per share calculation | **1,131,897** | 781,593 |
| Weighted average number of ordinary shares, assuming issued at conversion of convertible instrument during the period | **236,519** | 368,417 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share calculation | **1,368,416** | 1,150,010 |

**9. Dividend**

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (six months ended 30 June 2004: nil).

**10. Property, plant and equipment, net**

| | **Unaudited RMB'000** |
|---|---|
| At 1 January 2005 | **2,227,528** |
| Additions | **135,449** |
| Transfers from construction in progress *(Note 11)* | **500,338** |
| Disposals | **(374)** |
| Depreciation | **(125,601)** |
| At 30 June 2005 | **2,737,340** |

(a) During the period, the Group incurred approximately RMB96 million in purchasing new machinery, approximately RMB22.7 million in expansion and development of buildings and approximately RMB12.9 million in purchasing office equipment.

(b) Certain property, plant and equipment of the Group with a carrying value amounting to approximately RMB474,209,000 (31 December 2004: RMB430,428,000) has been pledged to secure the outstanding payable amounts of the Group, as set out under Note 17 "Long term payables".

### 11. Construction in progress

| | Unaudited RMB'000 |
|---|---|
| At 1 January 2005 | 292,013 |
| Additions | 406,095 |
| Transferred to property, plant and equipment *(Note 10)* | (500,338) |
| At 30 June 2005 | 197,770 |

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

### 12. Inventories

| | Unaudited At 30 Jun 2005 RMB'000 | Audited At 31 Dec 2004 RMB'000 |
|---|---|---|
| Raw materials | 501,018 | 465,976 |
| Finished goods | 356,358 | 248,823 |
| | 857,376 | 714,799 |

### 13. Trade receivables

The Group normally allows a credit period of not more than 30 days to its customers. The Group closely monitors overdue balances. A provision for doubtful debts is made when it is considered that amounts due may not be recovered. The aging analysis of the trade receivables of the Group is as follows:

| | Unaudited At 30 Jun 2005 RMB'000 | Audited At 31 Dec 2004 RMB'000 |
|---|---|---|
| Within 3 months | 204,965 | 168,601 |
| Between 4 to 6 months | 11,787 | 21,904 |
| Between 7 to 12 months | 1,741 | 3,513 |
| Over 1 year | 340 | 64 |
| | 218,833 | 194,082 |
| Less: Provision for doubtful debts | (8,783) | (8,783) |
| | 210,050 | 185,299 |

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

| | Unaudited At 30 Jun 2005 RMB'000 | Audited At 31 Dec 2004 RMB'000 |
|---|---|---|
| Associates | 19,648 | 21,582 |

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.

**14. Trade payables**

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

| | Unaudited At 30 Jun 2005 RMB'000 | Audited At 31 Dec 2004 RMB'000 |
|---|---|---|
| Within 3 months | 905,226 | 585,208 |
| Between 4 months to 6 months | 135,540 | 81,172 |
| Between 7 months to 12 months | 36,092 | 26,100 |
| Over 1 year | 25,547 | 2,117 |
| | 1,102,405 | 694,597 |

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

| | Unaudited At 30 Jun 2005 RMB'000 | Audited At 31 Dec 2004 RMB'000 |
|---|---|---|
| An associate | 3,653 | 669 |

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

## 15. Accruals and other payables

| | Unaudited At 30 Jun 2005 RMB'000 | Audited At 31 Dec 2004 RMB'000 |
|---|---|---|
| Advances from customers | 171,033 | 136,870 |
| Salary and welfare payables | 50,961 | 40,220 |
| Other payables | 478,067 | 454,270 |
| Dividend payable | 80,053 | — |
| Current portion of long term payables *(Note 17)* | 102,228 | 102,334 |
| Other accruals | 32,850 | 24,466 |
| | 915,192 | 758,160 |

## 16. Interest bearing bank loans, unsecured

| | Unaudited At 30 Jun 2005 RMB'000 | Audited At 31 Dec 2004 RMB'000 |
|---|---|---|
| Short term bank loans, unsecured | 650,542 | 470,542 |
| Long term bank loans, unsecured | 70,000 | 239,500 |
| | 720,542 | 710,042 |

During the period, the annual interest rates of the short term bank loans and the long term bank loans varied from 4.8% to 5.8% and from 2.9% to 5.5% (six months ended 30 June 2004: varied from 3.7% to 5.3% and from 2.9% to 5.8%), respectively. As at 30 June 2005, the Group's interest bearing bank loans were denominated in Renminbi, except for loans of approximately US$20,000,000 (equivalent to approximately RMB165,530,000) denominated in US dollars.

The repayment schedule of the bank loans is as follows:

| | Unaudited At 30 Jun 2005 RMB'000 | Audited At 31 Dec 2004 RMB'000 |
|---|---|---|
| Within 1 year | 650,542 | 470,542 |
| Between 1 to 2 years | 70,000 | 76,500 |
| Between 2 to 5 years | — | 163,000 |
| Total interest bearing bank loans | 720,542 | 710,042 |
| Less: Amount due within 1 year included in current liabilities | (650,542) | (470,542) |
| | 70,000 | 239,500 |

**17. Long term payables**

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

| | Unaudited At 30 Jun 2005 RMB'000 | Audited At 31 Dec 2004 RMB'000 |
|---|---|---|
| Within 1 year | 102,228 | 102,334 |
| Between 1 to 2 years | 111,420 | 86,939 |
| Between 2 to 5 years | 145,007 | 102,986 |
| Total long term payables | 358,655 | 292,259 |
| Less: Amount due within 1 year included in current liabilities *(Note 15)* | (102,228) | (102,334) |
| | 256,427 | 189,925 |

**18. Share capital**

On 16 June 2005, convertible instrument of US$24,663,679 (equivalent to approximately RMB204,636,000) was converted into 257,891,532 ordinary shares of HK$0.10 each, giving rise to a share premium of RMB177,201,000, being the excess of the value of the convertible instrument of RMB204,636,000 over the par value of the new shares issued of RMB27,435,000.

**19. Contingent liabilities**

The Group is contingently liable in respect of four guarantee contracts with a bank in favour of certain suppliers of raw milk (the "Suppliers") pursuant to which certain bank loans were granted to those Suppliers. The outstanding bank loans as at 30 June 2005 amounted to RMB83,000,000 (31 December 2004: RMB83,000,000). The guarantees are solely given by the Group, but the guarantees are counter-guaranteed by these Suppliers who are independent third parties. Security under these counter-guarantees included property, dairy cattle and other assets owned by these Suppliers.

## 20. Commitments

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

| | **Unaudited At 30 Jun 2005 RMB'000** | Audited At 31 Dec 2004 RMB'000 |
|---|---|---|
| Contracted, but not provided for | **424,772** | 419,076 |
| Authorised, but not contracted for | **210,250** | — |
| | **635,022** | 419,076 |

## 21. Related party transactions

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

| | | **Unaudited For the six months ended 30 Jun** | |
|---|---|---|---|
| | *Notes* | **2005 RMB'000** | 2004 RMB'000 |
| Sale of liquid milk to associates | *(a)* | **404,564** | 199,735 |
| Sale of ice cream and other dairy products to associates | *(a)* | **49,942** | 14,408 |
| Key management compensation | *(b)* | | |
| — directors' fees | | **30** | 30 |
| — salaries and allowances | | **640** | 486 |
| — retirement benefits contributions | | **7** | 7 |

(a) The price of the above transactions was determined with reference to the then prevailing market price/rates and the price charged to third parties.

(b) Key management compensation represented remuneration paid or payable to the Company's directors.

## 22. Comparative figures

Retained earnings as of 1 January 2004 has been restated to reflect the early adoption of IFRS 3 "Business Combinations" in the second half of 2004. Details were set out in Note 2 to the 2004 annual financial statements.

## 23. 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 23 August 2005.