蒙牛

MENGNIU

China Mengniu Dairy Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2319)

Announcement of the interim results for the six months ended 30 June 2005

HIGHLIGHTS

- Revenue increased by 36.9% to RMB4,754.0 million as a result of rising market share and new product introduction. According to ACNielsen survey, the Group's market share in the China liquid milk market, excluding milk beverages and yogurt, increased by 3.6 percentage points from 22.0% in December 2004 to 25.6% in June 2005.
- Net profit attributable to equity holders of the Company was up by 33.9% to RMB246.5 million.
- Net cash inflow from operating activities surged by 309.0% to RMB703.5 million.

INTERIM RESULTS (UNAUDITED)

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") for the six months ended 30 June 2005, 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 and the auditors of the Company.

Condensed consolidated income statement

		Unaudited For the six months ended 30 June	
		2005	2004
	Notes	***RMB'000***	*RMB'000*
Revenue	*4*	**4,754,042**	3,472,671
Cost of sales		**(3,687,747)**	(2,645,737)
Gross profit		**1,066,295**	826,934
Other income	*4*	**5,836**	2,768
Selling and distribution costs		**(615,919)**	(513,464)
Administrative expenses		**(110,219)**	(58,266)
Other operating expenses		**(1,894)**	(4,223)
Profit from operating activities	*5*	**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	*6*	**(26,445)**	(10,339)
Net profit for the period		**300,052**	230,203
Attributable to:			
Equity holders of the Company		**246,527**	184,080
Minority interests		**53,525**	46,123
		300,052	230,203
Earnings per share	*7*		
— Basic (RMB)		**0.22**	0.24
— Diluted (RMB)		**0.18**	0.16

Condensed consolidated balance sheet

	Notes	Unaudited At 30 June 2005 RMB'000	Audited At 31 December 2004 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment, net		**2,737,340**	2,227,528
Construction in progress		**197,770**	292,013
Land use rights		**33,535**	34,062
Investments in associates		**16,368**	20,578
Long term investments		**6,029**	3,409
Goodwill		**115,549**	115,549
		3,106,591	2,693,139
CURRENT ASSETS			
Inventories		**857,376**	714,799
Trade receivables	*9*	**210,050**	185,299
Prepayments, deposits and other receivables		**198,094**	129,186
Pledged deposits		**45,774**	20,763
Cash and cash equivalents		**1,191,247**	1,018,928
		2,502,541	2,068,975
CURRENT LIABILITIES			
Trade payables	*10*	**1,102,405**	694,597
Accruals and other payables		**915,192**	758,160
Interest-bearing bank loans, unsecured		**650,542**	470,542

Other loans, unsecured		**22,300**	22,600
Income tax payable		**4,134**	1,436
		2,694,573	1,947,335
NET CURRENT (LIABILITIES)/ASSETS		**(192,032)**	121,640
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,914,559**	2,814,779
NON-CURRENT LIABILITIES			
Interest-bearing bank loans, unsecured		**70,000**	239,500
Other loans, unsecured		**18,000**	18,000
Long term payables		**256,427**	189,925
Deferred income		**62,154**	64,226
		406,581	511,651
NET ASSETS		**2,507,978**	2,303,128
CAPITAL AND RESERVES			
Share capital	*11*	**145,573**	118,138
Reserves		**1,975,379**	1,551,647
Convertible instrument		**—**	204,636
Proposed final dividend		**—**	80,053
Equity attributable to equity holders of the Company		**2,120,952**	1,954,474
Minority interests		**387,026**	348,654
TOTAL EQUITY		**2,507,978**	2,303,128

Notes:

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

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.

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 June	
	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	Audited
	At 30 June	At 31 December
	2005	2004
	RMB'000	*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 June	
	2005	2004
	RMB'000	*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 June	
		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 June	
	2005	2004
	RMB'000	*RMB'000*
Staff costs, excluding directors' remuneration	**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. 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.

7. 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 June	
	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

8. 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).

9. 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 June 2005 *RMB'000*	Audited At 31 December 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

Amounts due from associates of approximately RMB19,648,000 (31 December 2004: RMB21,582,000) were included in the above. 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.

10. Trade payables

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

	Unaudited At 30 June 2005 *RMB'000*	Audited At 31 December 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

Amounts due to an associate of approximately RMB3,653,000 (31 December 2004: RMB669,000) were included in the above. The balances are unsecured, non-interest bearing and are repayable on demand.

11. Share capital

On 16 June 2005, convertible instrument of US$24,663,679 (equivalent to 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.

FINANCIAL REVIEW

The Group recorded impressive sustainable growth in the first half of 2005. Revenue for the six months ended 30 June 2005 was RMB4,754.0 million, an increase of 36.9% over that of the same period last year. Net profit attributable to the equity holders of the Company for the period reached RMB246.5 million, up 33.9%. Basic earnings per share were RMB0.22, against RMB0.24 in the first half of 2004; diluted earnings per share were RMB0.18, against RMB0.16 in the first half of 2004.

Gross Profit

Remarkable sales growth pushed gross profit up by 28.9% to RMB1,066.3 million. The introduction of new high value-added products and the gradual rebound of the lower average selling price of UHT milk due to the severe competition last year has resulted in an improved overall gross margin of 22.4% in the first half of 2005 over that of the second half of 2004. The 22.4% gross margin is 1.4 percentage points lower when compared with the first half of 2004.

Operating Expenses

The Group's stringent cost control measures proved to be successful. Attributable to greater economies of scale, total operating expenses as a percentage of revenue during the period decreased to 15.3%, from 16.6% in the same period last year.

Profit from Operating Activities

EBITDA during the period increased by 46.1% to RMB470.2 million and EBITDA margin rose to 9.9% from 9.3% in the corresponding period in 2004. This indicated that the cost control measures enforced during the period had been effective.

Net Profit

Net profit attributable to the equity holders of the Company grew 33.9% to RMB246.5 million in the first half of 2005 from RMB184.1 million in the same period in 2004.

The two-year tax holiday enjoyed by a subsidiary of the Group, which is a sino-foreign joint venture, expired during the period. Nevertheless, the Group still enjoyed a relatively low effective tax rate of 8.1%, only 3.8% percentage points higher than that in the corresponding period last year.

Capital Structure, Liquidity & Financial Resources

The Group's cash and cash equivalents amounted to RMB1,191.2 million as at 30 June 2005. Net cash from operating activities amounted to RMB703.5 million, representing a surge of 309.0% as compared with the same period in 2004.

As at 30 June 2005, the Group had outstanding bank loans amounting to RMB720.5 million, a slight increase from RMB710.0 million as at 31 December 2004. Of the outstanding bank loans, RMB650.5 million is repayable within one year and RMB70 million is repayable beyond one year. The total debt to equity ratio (total debts divided by total equity) of the Group was reduced to 30.3% as at 30 June 2005 from 32.6% as at 31 December 2004.

Total equity of the Group increased from RMB2,303.1 million as at 31 December 2004 to RMB2,508.0 million as at 30 June 2005.

Net finance cost for the period decreased by 5.4% to RMB12.9 million when compared with the same period in 2004 as the Group effectively consolidated the use of capital and reduced the amount of interest bearing loans.

MARKET REVIEW

Despite the negative effects caused by the outbreak of contagious disease among milk cows in some localities and media reports of questionable milk quality in parts of the country, benefiting from the improving living standards of the country and the increasing awareness among consumers of the nutritional value of liquid milk, the dairy industry experienced strong growth in the first half of 2005. According to a survey conducted by ACNielsen in June 2005, the annualized growth rate of the liquid milk market in China, excluding milk beverages and yogurt, by volume was approximately 20%. As the per capita consumption of liquid milk in China is still relatively low when compared to other Asian countries, the Chinese dairy industry has room for further sustainable growth.

BUSINESS REVIEW

Branding and Marketing

According to ACNielsen, the Group had 25.6% share of the liquid milk market by volume, excluding milk beverages and yogurt, in June 2005, as compared with 22.0% in December 2004. Brand equity and strong consumer loyalty have been the key success drivers for the Group. The liquid milk market in China continued to be dominated by key local dairy players, with the top three accounting for 59.8% market share in June 2005, as compared with 55.5% in December 2004.

The Group has built and maintained a nationwide sales and distribution network comprising predominantly of over 1,000 exclusive distributors across China. It will continue to enhance cooperation and communication with these distributors.

The advertising and promotions budget was expended more effectively during the first half of 2005, mostly on advertising campaigns on national television. Leveraging greater economies of scale, the advertising and promotion expenses during the period amounted to RMB248.7 million, which accounted for 5.2% of the Group’s total revenue, against 6.9% in the same period of 2004.

Products

The Group offers a comprehensive array of choices to consumers with a product portfolio comprising over 250 varieties of liquid milk, ice cream and other dairy products.

Liquid milk

The liquid milk segment remained as the Group’s primary revenue contributor. Accounting for 83.1% of the Group’s revenue, revenue from liquid milk grew to RMB3,951.5 million, up 44.3% from the corresponding period last year. The increase was attributable to the Group’s continuous efforts to build its brands and develop new products of higher value to cater to different consumer preferences.

UHT milk, being the core product of the Group, accounted for 73.3% of the revenue from the liquid milk segment. Apart from offering traditional UHT milk, the Group also offered a variety of functional UHT milk products such as fortified milk with calcium and low fat and low lactose milk. The newly launched breakfast milk targeting busy city dwellers contributed to the Group’s profit growth during the period.

A variety of milk beverages and yogurt products, targeting consumers who go for healthy and flavoursome products, were launched in the first half of 2005. These products accounted for 19.8% and 6.9% of the segmental revenue respectively, and their revenue grew 88.7% and 58.4% over that of the same period in 2004 respectively, pointing to ample room for market development for milk beverages and yogurt products.

Ice cream

Revenue from the ice cream segment rose by 42.4% to RMB694.1 million, accounting for 14.6% of the Group's total revenue, despite that the peak season for sales of ice cream did not fall fully within the period.

In light of the seasonal characteristics of ice cream products, the Group has striven to set consumption trend by rolling out quickly products of various flavours to capture different seasonal demands across the nation.

Other dairy products

Revenue from other dairy products decreased by 56.1% to RMB108.5 million in the first half of 2005, contributing 2.3% of the Group's total revenue. The decrease in sales revenue was mainly attributable to the fact that milk tablets were exceptionally well-accepted by the market when they were first launched last year, and its sales retreated in the first half of 2005. The continuous efforts invested to develop the baby milk powder market brought encouraging results, indicating promising prospects for the segment.

Raw Milk Supply

The Group established exclusive supply contracts with over 2,000 milk collection centers and raw milk suppliers. A stable supply of quality and safe raw milk is maintained to support the growth of the Group.

Production

The Group operated 14 production bases with a combined annual production capacity of 2.54 million tons in the first half of 2005.

Prospects

The continuous market competition in the dairy industry and a series of unfavourable reports on milk quality or the industry itself in the first half of 2005 has brought about challenges to industry players. Nevertheless, healthy development of the dairy industry is still expected in the long run. To capture greater market share, the Group will continue to optimize its product mix, as well as enhance its investment portfolio, financial management processes and operational management structure so as to boost its operational capability in accordance with its market strategies.

Product Quality

Applying stringent measures on milk source management to ensure the quality of raw milk supply is a priority to the Group. Mengniu-Australia International Model Ranch was established as a role model to promote the application of scientific technology. Besides, the Group's state-of-the-art milk inspection facilities boasting sophistication also help to deliver a stable supply of raw milk and enhance product quality.

Meanwhile, the Group will further strengthen the management systems in the quality control process to ensure all production procedures meet high standards.

New Product Introduction

The Group will invest more resources to further enhance the product portfolio and provide quality, nutritious and delicious products that meet the sophisticated tastes and needs of consumers, thereby enables the Group to capture opportunities for further growth.

By evaluating market receptiveness of the newly launched products, the Group is able to identify and re-launch some of the popular new products in a larger scale to gain better economies of scale.

In the second half of 2005, the Group will ride on the supply of quality raw milk from the Mengniu-Australia International Model Ranch to introduce a range of premium milk products.

Penetration of New Markets

The Group will seek to further boost the economies of scale of its sales and distribution network by consolidating its leading position in first-tier markets while expanding into second and third-tier markets. The Group is also set to further raise its brand awareness through effective budgeting for its nationwide promotion and advertising campaigns.

Capacity Expansion

The Group added 54 new production lines in its factory premises in the first half of 2005. To keep up with projected sales growth, the Group will expand its production capacity to 2.75 million tons by the end of 2005.

Partnership

Aiming at securing stable and safe supply of raw milk to support business growth, the Group is committed to fostering closer relationship with milk collection centers and raw milk suppliers by providing them advice and assistance.

Management Incentives

To encourage successful implementation of its growth strategies, the Group will continue to build employee excellence by strengthening its management system. In addition to offering promotion and compensation systems to boost employee initiatives and work place excellence, the Group adopted a share option scheme in June 2005 to acknowledge and reward employees' loyalty and contributions.

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005.

Purchase, Sale or Redemption of the Company's Listed Shares

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Human Resources and Remuneration of Employees

As at 30 June 2005, the Group employed a total of approximately 26,000 employees (30 June 2004: 16,583 employees) in China and Hong Kong. Total staff costs for the first half of 2005 amounted to approximately RMB 174.6 million, excluding that for the Directors, as compared with approximately RMB 97.9 million in the corresponding period in 2004.

The Group invests in continuing education and training programs for its management staff and other employees to constantly improve their skills and knowledge. An internal vocational training centre, Mengniu Commercial College, has been set up to develop and implement training programs for the Group's personnel.

Remuneration is maintained at competitive levels with incentive bonuses payable on a merit basis for innovations and improvements which is in line with industry practice. Other staff benefits provided by the Group include a pension contribution plan and insurance schemes.

Subsequent Event

There was no significant subsequent event.

Audit Committee

The audit committee comprises three non-executive Directors, two of whom are independent. The current committee members are Mr Zhang Julin (chairman), Mr Li Jianxin and Mr Jiao Shuge (alias Jiao Zhen). The audit committee has reviewed with the Company management and the external auditors the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial report matters including the review of the unaudited interim accounts for the six months ended 30 June 2005.

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.

Compliance with the Code on Corporate Governance Practice

Save and except that one of the resolutions which was passed at the Company's annual general meeting held on 28 June 2005 by way of a show of hands rather than by poll as required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), details of which had been disclosed in an announcement dated 11 July 2005, none of the Directors of the Company is aware of any information that would reasonably indicate that the Company was not at any time during the six months ended 30 June 2005 in compliance with the Code on Corporate Governance Practice as set out by the Hong Kong Stock Exchange in Appendix 14 to the Listing Rules.

Compliance with Model Code

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the Company's code of conduct and rules governing dealings by all Directors in the securities of the Company. Having made specific enquiry of all Directors of the Company, during this reporting period, the Directors of the Company had strictly complied with the Model Code.

Acknowledgement

On behalf of the Board of Directors, I extend my gratitude to all the staff for their hard work and dedication.

By order of the Board of Directors
Niu Gensheng
Chief Executive Officer

Hong Kong, 23 August 2005

As at the date of this announcement, the Executive Directors are Mr Niu Gensheng, Ms Lu Jun, Mr Yang Wenjun and Mr Sun Yubin. The Non-executive Directors are Mr Jiao Shuge (alias Jiao Zhen), Mr Liu Haifeng, David and Ms Jin Yujuan, Lily. The Independent non-executive Directors are Mr Wang Huaibao, Mr Zhang Julin and Mr Li Jianxin.

Please also refer to the published version of this announcement in ***(The Standard)***