Annual Report 2010

澳优 Ausnutria

AUSNUTRIA DAIRY CORPORATION LTD

澳 優 乳 業 股 份 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

Contents

Chairman's Statement

TO ALL SHAREHOLDERS:

By order of the board of directors (the "Board"), I hereby present the annual report of Ausnutria Dairy Corporation Ltd (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2010.

Since the Group's listing in 2009, the Group has devoted more resources on branding and advertising. The Group launched an annual television advertisement program on CCTV, however the result was not satisfactory which resulted in a significant increase in advertising expenses as compared to 2009. To cope with increasing market competition, the Group has restructured its distribution system, established its own regional sales offices and expanded its sales and marketing teams to take up regional marketing and promotion activities. This caused a temporary disruption in supply of products in certain areas and the Group's operating expenses were significantly increased. This resulted in the significant decreases in net profit for the year as compared to the previous year.

2010 is a year of challenge and change for the Group. In response to the changes in market competition and the operating environment, the Group has undergone a number of restructuring and changes to its business model. In particular, the Group has launched new products to the market, changed its advertising strategies, restructured its downstream distribution system, established regional sales offices and expanded its sales and marketing teams. All these changes in 2010 have resulted in the decrease in turnover and increase in operating expenses during the year which resulted in the significant drop in the net profit for the year. We believe that these changes are necessary and beneficial for the long term growth of the Group.

The business goals of the Group are: reinforcing and strengthening our relationships with existing milk powder suppliers as well as securing new supplies by sourcing milk powder from new suppliers to support its diversification; increasing its competitiveness and expanding its product range in the high-priced and premium-priced paediatric milk formula products market segments; reinforcing and expanding its distribution network in the People's Republic of China (the "PRC") and other regions; enhancing its focus and efforts on research and development; improving its production facilities and expanding its storage capacity; and evaluating the opportunities for upward integration to secure its milk powder supplies by investing in cattle farms or milk powder producers or cooperating with international institutions that produce milk powder.

The Group has been focusing on brand recognition as manufacturers of high quality imported sourced products, product quality, distribution network and price, therefore, the Group believes that its products can compete in the high-priced and premium-priced paediatric nutrition products market. Following the "Melamine Incident", the PRC government has introduced a number of regulations and measures which aimed at controlling and improving food safety in the dairy products industry and for the purpose of regaining the confidence of consumers. The Group considers that these regulations and measures will discipline the industry with strict standards and as a whole, will be more beneficial to the Group's business development in the long run.

Chairman's Statement

The Group will continue to launch new products which include organic products and products with a brand new formula. In 2010, the Group has raised the selling prices of its products which would be a good contribution to the results of the Group for the coming year. In addition, the Group will continuously strengthen its distribution network, enhance the placement of media advertising throughout the country and actively seek for additional quality suppliers of paediatric nutrition products with a view to develop a new series of specialty paediatric milk formula and other paediatric nutrition products. The Group believes that its revenue will continue to grow in the coming year, and the group wishes to continue to strive for satisfactory return for the Shareholders of the Company.

Lastly, I would like to take this opportunity to thank the Group's customers, suppliers, distributors and business associates for their continuous support and trust. Also heartfelt thanks to the board members of the Company, senior management and all the Group's staff for their dedication and hard work.

Wu Yueshi
Chairman

Changsha City, China
28 March 2011

Management Discussion and Analysis

BUSINESS REVIEW

The Group recorded a total revenue of approximately RMB 579,333,000 (2009: RMB 623,777,000), representing a decrease of approximately 7.1% over the previous year. The decrease is mainly attributable to the Group's restructuring of its distribution system as well as the active adjustment to the sales and marketing teams in response to the market situation.

Gross profit was approximately RMB317,544,000 (2009: RMB308,247,000), representing an increase of approximately 3.02% over the previous year. The Group's profit attributable to ordinary equity holders of the parent decreased significantly by approximately 39.5% to RMB110,167,000 (2009: RMB182,120,000) and the basic earnings per share was approximately RMB10.5 cents (2009: RMB 21.3 cents), representing a decrease of approximately RMB10.8 cents over the previous year. The directors of the Company (the "Directors") recommend the payment of a final dividend of HK$3 cents (2009: HK$6 cents) per ordinary share for the year ended 31 December 2010.

The Group currently has four major product series of paediatric milk formula and other paediatric nutritional supplements. The four major product series are A-choice Series, Best-choice Series, Allnutria Series and Allnutria Organic Series, which are designed to target consumers of high-priced and premium-priced products.

The breakdown of the Group's revenue by products for the year ended 31 December 2010 are as follows:

	For the year ended 31 December			
	2010		2009	
	RMB'000	**%**	RMB'000	%
A-choice Series	**80,893**	**14.0**	60,506	9.7
Best-choice Series	**186,616**	**32.2**	254,501	40.8
Allnutria Series	**230,359**	**39.8**	298,166	47.8
Allnutria Organic Series	**77,862**	**13.4**	–	–
Others	**3,603**	**0.6**	10,604	1.7
Total	**579,333**		623,777	

A-choice Series

The A-choice Series is divided into three stages for infants and toddlers of different ages: for new born infants up to 12 months of age; for infants and toddlers aged from six months to 18 months; and for toddlers aged from 12 months to three years. The formula for the A-choice Series products contains a combination of probiotics which is known for enhancing the development of healthy bacteria and for encouraging nutritional absorption as well as ingredients which are known to assist neurological development of infants and toddlers. The products in the A-choice Series are available in cans and aluminium foil bag packages of different volumes to cater for the different needs of consumers. The A-choice Series products are targeted towards the high-priced paediatric milk formula market.

The sales of A-choice Series during the year have increased by approximately 33.7% over the previous year and constituted approximately 14.0% (2009: 9.7%) of the Group's total revenue.

Best-choice Series

The Best-choice Series is divided into three stages for infants and toddlers of different ages: for new born infants up to 12 months of age; for infants and toddlers aged from six months to 18 months; and for toddlers aged from 12 months to three years. The Best-choice Series formula includes ingredients which are known to strengthen the infant and toddler's immune system and assists in the infant and toddler's brain development. The products in the Best-choice Series are available in cans and aluminium foil bag packages of different volumes to cater for the different needs of consumers. The Best-choice Series products are targeted towards the high-priced paediatric milk formula market. The Best-choice Series had, in the past, been the Group's top selling series. The sales of which during the year has decreased by approximately 26.7% as compared to the previous year and contributed approximately 32.2% of the Group's total revenue (2009: approximately 40.8%).

Allnutria Series

The Allnutria Series, which was jointly developed by the Group and Tatura Milk Industries Limited ("Tatura"), is divided into four stages for infants and toddlers of different ages: for new born infants up to 100 days of age; for infants aged from 100 days to 180 days; for infants aged from 180 days to 360 days; and for toddlers aged from 360 days and upwards. The formula of the Allnutria Series is most similar to natural mother's breast milk which is known to strengthen the infant and toddler's immune system as well as to enhance the infant and toddler's intestinal system. It has been well accepted by the market and was the top selling product series of the Group for the year ended 31 December 2010. Sales of this series during the year decreased by approximately 22.7% over the previous year and contributed approximately 39.8% of the Group's total revenue (2009: approximately 47.8%).

Allnutria Organic Series

The Group launched the Allnutria Organic Series products in early 2010 which have been well accepted by the market. The Allnutria Organic Series, which was jointly developed by the Group and Tatura, is certified by both the National Association for Sustainable Agriculture, Australia ("NASAA") and China Organic Food Certification Center ("COFCC"). The Allnutria Organic Series is divided into three stages for infants and toddlers of different ages: for new born infants up to six months of age; for infants and toddlers aged from six months to 12 months; and for toddlers aged from 12 months to three years. Since the Allnutria Organic Series meets the requirements of parents who are particularly concerned about health and use environmentally friendly products, it has been well accepted by the market and has become one of the major product series of the Group during the year. The sales of Allnutria Organic Series during the year ended 31 December 2010 has contributed approximately 13.4% of the Group's total revenue.

Other Products

Other products comprise products of supplemental meals for infants and milk powder of specialty formulae. The Group produces rice cereals with different added ingredients as supplemental meals for infants and milk powder of different specialty formulae which are designed to target consumers with special needs including premature and low birth-weight infants and expectant or nursing mothers.

As these products are not the Group's main products such as the Allnutria Series, sales revenue has been comparatively lower than those of the major series and decreased by approximately 66% for the year ended 31 December 2010 and contributed approximately 0.6% of the Group's total revenue (2009: approximately 1.7%).

Branding and Marketing

After the Group's listing in 2009, the Group changed its marketing and advertising strategy in 2010 and more resources were devoted to television advertising for brand building and maintenance. This resulted in increasing brand awareness and brand recognition for the Group's brand but also significantly increased the Group's advertising expenses as compared to the previous year.

The Group's trademark "Ausnutria" has been accredited as "China Wellknown Trademark" in early 2010 by the Trademark Office of the State Administration for Industry and Commerce of the PRC in relation to trademark awareness. Moreover, the Group has cooperated with JinYing Carton of Hunan TV on large scale activities such as the "Allnutria Baby Show" which was carried out in more than 100 cities in the PRC.

Marketing and Distribution

The Group sells all of its products to consumers through distributors. During 2010, the Group continues expanding its distributor network and increasing penetration into second and third tier markets. For better management of the distributors and further enhancement of the Group's competitiveness, the Group restructured its distribution system in 2010.

In 2009, the Group's distributors are responsible for all regional marketing and promotion activities, including advertising in retail outlets and arranging paediatric nutrition education seminars. In view of the effectiveness of the marketing and promotion efforts conducted by the Group's distributors and to further strengthen the Group's competitiveness, the Group has restructured its whole distribution system. Under the new distribution system, the Group will directly involve in regional marketing and promotion activities and the discounts offered to distributors were adjusted accordingly.

The Group has expanded its sales and marketing teams and set up regional sales offices to manage the marketing and promotion activities and coordination of distributors. As at 31 December 2010, the Group has a total of 17 sales offices and the sales and marketing personnel has increased to 314 (2009: 120).

The change in the discount rates to distributors during the year has also resulted in termination of several distributors in major cities, including Shanghai, Beijing, Guangzhou and Chengdu, the PRC. Though the Group has appointed new distributors in these areas, the supply and sales were temporary disrupted and resulted in the decreases in revenue in these areas.

Management Discussion and Analysis

The Group believes that through the restructuring and change carried out in 2010, the Group is better positioned to compete in the market and to face the market opportunities and challenges ahead. The Group has now built its own regional marketing function and the distributor network was expanded. As at 31 December 2010, the number of distributors has reached a total of 423 distributors (2009: 79).

Production and Quality Control

In 2010, the Group continued its effort in improving its production process to improve the production efficiency. The Group has made various progress in the improvement of the relevant production processes and work flow, from purchasing, production, packaging to warehousing, to promote energy saving and consumption reduction. These resulted in reduced production costs and enhanced product quality.

In November 2010, the PRC government issued a notice and required all enterprise engaged in the production of formula milk powder in China to re-apply for production licence. All related enterprises must obtain the new production licence by the end of March 2011. The new rule implemented more stringent requirement on the production process and quality control of formula milk powder production. The Group has already obtained the new production licence.

Research and Development

Technology research and development has always been the key element of the Group's sustainability. In 2010, the Group continued to strengthen its research and development capability in order to enhance protection of core technology, upgrade existing products and develop new products.

In 2010, the Group reinforced its research and development efforts on core technology knowhow of baby dairy products and has filed application for national patents for eight core research results. The Group finished the upgrading of the formulae for its A-Choice and Best Choice Series and launched the new formula to the market in September 2010. The Group also cooperated with reputable universities and research institutes to further enhance its research capability.

In addition, the Group worked closely with its suppliers in France and Australia for the development of new products. A new formula product for pregnant woman was launched in October 2010. The development of other high-priced paediatirc formula milk powder, organic paediatric formula milk powder and premature paediatric formula milk powder are in progress and will be launched in the market in 2011.

Management Discussion and Analysis

BUSINESS OUTLOOK

The Group's goal is to strengthen its position as a leading paediatric milk formula company in the PRC market and expand its market share in the PRC. The Group plan to accomplish its goal by leveraging on its principal strengths and by implementing the following strategies:

Upstream Diversification

The Group will reinforce and strengthen its relationships with existing milk powder suppliers as well as securing new supplies by sourcing milk powder from new suppliers to support its diversification. The Group believes that a greater variety of suppliers and milk powder sourcing will enable it to diversify its risk profile and strengthen its ability to secure stable supplies of milk powder to meet market demand.

The Group continues to carry out the five-year supply agreement with Tatura to secure the long term supply of milk powder for producing its products. The Group has also entered into an agreement with France Nutribio SAS ("NUTRIBIO") to launch a new series of formula products produced by NUTRIBIO in order to enable the Group to meet additional supply requirement.

Furthermore, the Group intends to explore investment opportunities in order to secure its milk powder supplies by way of upward integration with potential milk powder suppliers. As at the date of this annual report, save as the letter of intent as disclosed in the announcement of the Company dated 30 March 2011 (the "Announcement"), the Group had not entered into any legally binding agreement or arrangement with respect to the upward integration opportunities mentioned above. As disclosed in the Announcement, the Group has identified an investment opportunity and is currently in discussion with an overseas organisation about its potential investment in its milk powder production operations and will make further announcement as and when appropriate.

Marketing and Advertising

The Group believes that its brand recognition and reputation are instrumental to its success and growth and will continue its effort in branding. The Group will continue to devote in brand building and maintenance through television and other media advertisements, sales and promotion activities and seminars to parents with information on paediatric nutrition and its products.

In 2011, the Group will adjust its advertising strategies and more emphasis will be placed on regional promotion and marketing activities. The Group will launch a new series of television advertising on Hunan Phoenix TV, instead of the CCTV network, the Group believes this will be more cost effective and the brand image can be better penetrated to its target customer group.

With the set up of regional sales offices and expansion of the sales and marketing teams, regional promotion and marketing activities can be organised and executed more effectively. Moreover, the regional sales offices in the major markets can further improve the Group's communication with end customers and enable the Group to better understand their needs and further improve its service to them. The Group's proximity with the markets will also increase the effectiveness of its marketing strategies and the response to market changes.

Management Discussion and Analysis

Expansion of distribution network

The Group has established an extensive nationwide sales and distribution network covering 23 provinces, four autonomous regions, four municipalities in the PRC and the Hong Kong Special Administrative Region. The Group has also appointed an agent to distribute its products through online shopping and infomercials. In 2011, the Group will continue to focus on reinforcing and expanding its distribution network in the PRC. The Group will enlarge its market position by appointing more distributors and increasing the number of retail outlets such as supermarkets and department stores in which its products are available for sale. The Group believes this will enable it to further penetrate the paediatric milk formula market in the PRC.

FINANCIAL REVIEW

The Group recorded a total revenue for the year ended 31 December 2010 amounted to approximately RMB579,333,000 (2009: RMB623,777,000), representing a decrease of approximately 7.1% as compared to the previous year. The audited profit attributable to ordinary equity owners of the parent was approximately RMB110,167,000 (2009: RMB182,120,000) and the basic earnings per share was RMB10.5 cents (2009: RMB21.3 cents), representing a decrease of RMB10.8 cents over the previous year. The Directors recommend the payment of a final dividend of HK$3 cents (2009: HK$6 cents) per ordinary share for the year ended 31 December 2010.

During the year under review, the Group's overall gross profit margin increased from approximately 49.4% in 2009 to approximately 54.8%, mainly due to the decrease in discount rate to distributors and change in product mix.

During the year ended 31 December 2010, other income and gains increased to approximately RMB21,520,000 (2009: RMB6,898,000) mainly due to increased interest income earned from the unutilised portion of the proceeds from the initial public offering, government grants received and investment income earned from held-to-maturity investments. Selling and distribution costs amounted to approximately RMB174,449,000 in 2010 representing an increase of approximately 89.7% from RMB91,947,000 for 2009. The significant increase was attributable to the increase in advertising and marketing activities and the increase in expenses in relation to the establishment of sales offices and expansion of sales and marketing staff during the year. Administrative expenses amounted to approximately RMB21,584,000 in 2010 representing an increase of approximately 104.3% from approximately RMB10,565,000 for 2009. The increase was mainly attributable to the increase in management staff to cope with business development and an increase in administrative expenses following the Group's successful listing in October 2009. Financial costs decreased to approximately RMB1,369,000 (2009: RMB4,184,000) as a result of the repayment of bank loan in early 2010.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the year, there were no material investments and acquisitions and disposals of subsidiaries.

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group intends to explore investment opportunities in order to secure its milk powder supplies by way of upward integration with potential milk powder suppliers in the PRC, Australia or elsewhere. As at the date of this annual report, save as the letter of intent as disclosed in the announcement of the Company dated 30 March 2011 (the "Announcement"), the Group had not entered into any legally binding agreement or arrangement with respect to the upward integration opportunities mentioned above. As disclosed in the Announcement, the Group has identified an investment opportunity and is currently in discussion with an overseas organisation about its potential investment in its milk powder production operations and will make further announcement as and when appropriate.

Management Discussion and Analysis

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGE OF ASSETS

As at 31 December 2010, net assets of the Group amounted to approximately RMB1,135,672,000 (2009: RMB1,080,573,000); current assets amounted to approximately RMB1,132,617,000 (2009: RMB1,597,529,000), of which approximately RMB638,984,000 (2009: RMB1,465,887,000) were cash and bank deposits.

The Group usually applies its cash flows generated internally to meet its operation needs. Following the fund raising of initial public offering, the Group has plenty financial resources and liquidity that are sufficient to meet its daily business operations and future development.

As at 31 December 2010, the Group has not pledged any assets to any third parties (31 December 2009: RMB18,418,000).

CAPITAL STRUCTURE

The movements in the Company's capital structure are set out in note 31 to the financial statements in this annual report. The Company's capital structure only comprises ordinary shares.

GEARING RATIO

As at 31 December 2010, the Group's current liabilities amounted to approximately RMB68,953,000 (2009: RMB546,529,000). The Group's ratio of current liabilities over current assets was approximately 6.1% (2009: 34.2%) and the gearing ratio was approximately 6.1% (2009: 50.6%) on the basis of total liabilities over net assets. As at 31 December 2010, the Group had no bank loan (2009: RMB350,000,000).

INTEREST AND FOREIGN EXCHANGE RISK

During the reporting period, the Group did not have debt obligations with floating interest rates (2009: nil). Accordingly, the Group had no significant interest rate risk.

Substantially all of the Group's businesses are denominated in Renminbi ("RMB"), which is the Group's functional currency. As at 31 December 2010, except for certain cash and bank balances which are denominated in Hong Kong dollar, the Group's assets and liabilities are all accounted for in RMB and the fluctuations in foreign exchange have no material effect on the Group's equity.

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. The Group seeks to maintain strict control over its outstanding receivables and closely monitors the collection to minimise credit risk. As the Group's exposure spreads over a diversified portfolio of customers, there is no significant concentration of credit risk.

The carrying amounts of cash and cash equivalents, trade receivables, other receivables and other financial assets, represent the Group's maximum exposure to credit risk in relation to the Group's other financial assets.

CAPITAL COMMITMENTS

As at 31 December 2010, the Group had no capital commitments (2009: nil).

CONTINGENT LIABILITIES

As at 31 December 2010, the Group had no contingent liabilities (2009: nil).

USE OF PROCEEDS

The shares of the Company were listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 October 2009 with net proceeds from the global offering of the Company's shares of approximately HK$823.1 million (after deducting underwriting commissions and related expenses).

The use of the net proceeds from the global offering up to 31 December 2010 was as follows:

	HK$'000
Invest in upstream operations	–
Expand the Group's distribution network and brand building	153,368
Enhance the Group's research and development efforts	8,178
Introduce new series of organic paediatric nutrition products	47,966
Establish new production lines and warehouse	16,479
General working capital	53,174
	279,165

The remaining balance was deposited in reputable financial institutions.

The Directors intend to apply the remaining net proceeds in the manner as set out in the announcement of the Company dated 8 September 2010.

EMPLOYEES

As at 31 December 2010, the Group employed approximately 512 (2009: 307) employees. The increase in the number of employees was due to the expansion of the Group's business to cope with business promotion and market exploration. The salary levels of employees are determined by their performance, qualifications, experience and contribution to the Group with reference to general market trend.

The total employees expenses of the Group including Directors' remuneration charged to the consolidated statement of comprehensive income for the year ended 31 December 2010 amounted to approximately RMB31,133,000 (2009: RMB14,229,000). The increase in total employees expenses was due to the increase in employees and salary increments adjusted in accordance with labour market trend.

SHARE OPTION SCHEME

Summary of terms

The following is a summary of the principal terms of the share option scheme conditionally approved and adopted by a written resolution passed by all Shareholders on 19 September 2009 (the "Share Option Scheme"):

(a) Purpose

The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Company.

(b) Who may join

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for shares in the Company (the "Shares") at a price calculated in accordance with subparagraph (f) below:

i. any employee or proposed employee (whether full-time or part-time and including any executive director), consultants or advisers of or to the Company, any of the subsidiaries or any entity ("Invested Entity") in which the Company holds an equity interest;

ii. any non-executive directors (including independent non-executive directors) of the Company, any of the subsidiaries or any Invested Entity;

iii. any supplier of goods or services to the Company or any of the subsidiaries or any Invested Entity;

iv. any customer of the Company or any Invested Entity;

v. any person or entity that provides research, development or other technological support to the Company or any Invested Entity; and

vi. any shareholder of the Company or any of the subsidiaries or any Invested Entity or any holder of any securities issued by the Company or any of the subsidiaries or any Invested Entity,

and for the purposes of the Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Company to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The basis of eligibility of any of the above classes of participants to the grant of any options shall be determined by the Directors from time to time on the basis of the participants' contribution to the development and growth of the Company.

In order for a person to satisfy the Directors that he is qualified to be (or where applicable, continues to qualify to be) a participant, such person shall provide all such information as the Directors may request for the purpose of assessing his eligibility (or continuing eligibility).

(c) Maximum number of Shares

i. The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital from time to time. No options may be granted under any schemes of the Company (or the subsidiary of the Company) if such grant will result in the maximum number being exceeded.

ii. The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme) to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 100,000,000 Shares, being 10% of the total number of Shares in issue at the time dealings in the Shares first commence on the Stock Exchange (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option) ("General Mandate Limit").

iii. Subject to (i) above and without prejudice to (iv) below, the Company may seek approval of the shareholders in general meeting to refresh the General Mandate Limit. However, the total number of Shares which may be issued upon exercise of all outstanding options to be granted under the Share Option Scheme and any other share option schemes of the Company under the limit as "refreshed" must not exceed 10% of the Shares in issue as of the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of the Company (including those outstanding, cancelled or lapsed in accordance with the Share Option Scheme and other share option schemes of the Company or exercised options) will not be counted for the purpose of calculating the limit as "refreshed". The Company will send a circular to the shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules.

iv. Subject to (i) above and without prejudice to (iii) above, the Company may seek separate approval of the shareholders in general meeting for granting options beyond the General Mandate Limit provided the options in excess of the limit are granted only to participants specifically identified by the Company before such approval is sought. The Company will issue a circular to the shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules.

(d) Maximum entitlement of each participant and connected persons

i. Unless approved by the shareholders, the total number of Shares issued and to be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each participant in any 12-month period must not exceed 1% of the Shares in issue (“Individual Limit”).

ii. Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the shareholders in compliance with the Note to Rule 17.03(4) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and the approval of the shareholders in general meeting with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before the shareholders’ approval and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under Note (1) to Rule 17.03(9) of the Listing Rules.

iii. In addition to the shareholders’ approval set out in Note (1) to Rule 17.03(3) and Note to Rule 17.03(4) of the Listing Rules, each grant of options to a Director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).

iv. Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) under the Share Option Scheme or any other share option schemes of the Company to such person in the 12-month period up to and including the date of such grant:

(1) representing in aggregate more than 0.1% of the Shares in issue; and

(2) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million,

such further grant of options must be approved by the shareholders. The Company must send a circular to the shareholders. All of the connected persons must abstain from voting in favour at such general meeting. Any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such option must be taken on a poll.

(e) Minimum period of holding an option and performance target

The Directors may, at their absolute discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the options can be exercised upon the grant of an option to a participant.

(f) Subscription price for Shares

The subscription price of a Share in respect of any option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, provided that such price shall not be less than the highest of (i) the nominal value of the Shares; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant of the option; and (iii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option (which must be a business day). A consideration of HK$1.00 is payable on acceptance of the offer of the grant of an option.

(g) Rights are personal to grantee

An option granted under the Share Option Scheme shall not be transferable or assignable and is personal to the grantee.

(h) Time of exercise of option

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms and conditions of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day upon which the offer for the grant of the option is accepted but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

(i) Ranking of Shares

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Memorandum of Association and the Articles of Association for the time being in force and will rank pari passu in all respects with the then existing fully paid Shares in issue on the date of exercise of the option and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of exercise of the option other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with reference to a record date falling before the date of exercise of the option. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee of such option has been duly entered on our register of members or the holder thereof.

(j) Period of the Share Option Scheme

Unless terminated by the Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional.

(k) Present status of the Share Option Scheme

As at the date of this report, no option has been granted or agreed to be granted under the Share Option Scheme.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wu Yueshi *(Chairman)*
Mr. Yan Weibin
Mr. Chen Yuanrong *(Chief Executive Officer)*
Ms. Ng Siu Hung

Independent Non-executive Directors

Mr. Qiu Weifa
Mr. Jason Wan
Mr. Chan Yuk Tong

COMPANY SECRETARIES

Ms. Ng Siu Hung
Mr. Lam Hiu Fung

AUTHORISED REPRESENTATIVES

Ms. Ng Siu Hung
Mr. Lam Hiu Fung

AUDIT COMMITTEE

Mr. Chan Yuk Tong *(Chairman)*
Mr. Qiu Weifa
Mr. Jason Wan

REMUNERATION COMMITTEE

Mr. Wu Yueshi *(Chairman)*
Mr. Qiu Weifa
Mr. Jason Wan
Mr. Chan Yuk Tong

NOMINATION COMMITTEE

Mr. Wu Yueshi *(Chairman)*
Mr. Qiu Weifa
Mr. Jason Wan
Mr. Chan Yuk Tong

AUDITORS

Ernst & Young
Certified Public Accountants
Changsha branch

COMPLIANCE ADVISER

China Merchants Securities (HK) Co., Ltd

LEGAL ADVISER (As to Hong Kong law)

Mallesons Stephen Jaques

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTER

9th Floor, Xin Da Xin Building
No. 168 Huangxing Middle Road
Changsha City, Hunan Province, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2101, Beautiful Group Tower
77 Connaught Road Central
Central
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Bank of China, Hunan Province branch, Changsha
China Construction Bank, Huangxing Road branch, Changsha
Bank of Changsha, Dong Tang branch, Changsha

STOCK CODE

1717

Directors' and Senior Management's Biographies

Biographical details of the Directors and the senior management of the Group are set out below:

DIRECTORS

Executive Directors

Mr. Wu Yueshi ("Mr. Wu"), aged 53, became our executive Director and Chairman on 8 June 2009. Mr. Wu is a shareholder and director of Brave Leader Limited ("Brave Leader"), Silver Castle International Limited ("Silver Castle") and Ausnutria Holding Co Ltd ("Ausnutria BVI"), the substantial shareholders of the Company. He is a director of the Company's subsidiaries, namely Ausnutria Dairy Company Limited ("Ausnutria Hong Kong"), Ausnutria Dairy (HK) Company Limited ("Ausnutria (HK)"), Ausnutria Australia Dairy Pty Ltd. ("Ausnutria Australia"), Ausnutria Dairy (China) Co., Ltd* ("Ausnutria China", formerly known as Ausnutria Dairy (Hunan) Company Ltd) and Spring Choice Limited ("Spring Choice"). Mr. Wu joined our Group at the establishment of Ausnutria China in September 2003. He is primarily responsible for the overall corporate strategy, planning and business development of our Group. Mr. Wu completed a Master of Business Administration program at the International College of Beijing University, and obtained the Executive Master's of Business Administration degree from Fordham University. Prior to joining our Group, he was employed by the Labour Department of Hunan Province (湖南省勞動廳), and was a director and the chief executive officer of Hunan Ava Seed Co., Ltd* (湖南亞華種業股份有限公司) ("Hunan Ava Seed"), a company whose shares are listed on the Shenzhen Stock Exchange. Mr. Wu is presently the chairman and a director of Changsha Xin Da Xin Group Company* (長沙新大新集團有限公司) which changed its name to Changsha Xin Da Xin Vilmorin Agri-Business Co., Ltd* (長沙新大新威邁農業有限公司) ("Changsha Xin Da Xin Group") and also the vice chairman of the Chamber of Commerce and Industry (Hunan)* (湖南省工商業聯合會). Since 2004 until now, Mr. Wu is the chairman and director of Yuan Longping High-tech Agriculture Co., Ltd* (袁隆平農業高科技股份有限公司) ("Longping High-tech"), a company whose shares are listed on the Shenzhen Stock Exchange.

Mr. Yan Weibin ("Mr. Yan"), aged 45, became our executive Director on 8 June 2009. Mr. Yan is a shareholder and director of Brave Leader, Silver Castle and Ausnutria BVI. He is also a director of Ausnutria Hong Kong, Ausnutria (HK), Ausnutria Australia, Ausnutria China and Spring Choice. He joined our Group since the establishment of Ausnutria China in September 2003. Mr. Yan is primarily responsible for the overall corporate strategy, planning and business development of our Group. Mr. Yan graduated from Hunan University with a degree in Bachelor of Engineering and MBA. He was a director of Changsha Xin Da Xin Real Estate Company* (長沙新新大新置業有限公司), a director and the vice president of Hunan Ava Seed, and the chief executive officer and director of Ausnutria China and Changsha Xin Da Xin Group. Mr. Yan is the director and chief executive officer of Longping High-tech from 2004 to April 2010. He has been the director, the vice chairman and the chief financial officer of Longping High-tech since April 2010.

Directors' and Senior Management's Biographies

Mr. Chen Yuanrong ("Mr. Chen"), aged 51, became our executive Director and chief executive officer on 8 June 2009. Mr. Chen is a shareholder and director of the Company's substantial shareholder, All Harmony International Limited. He is also a director of Ausnutria Hong Kong, Ausnutria (HK), Ausnutria China and Spring Choice. Mr. Chen joined our Group in December 2003 as the director and chief executive officer of Ausnutria China. He is primarily responsible for the day-to-day management and operations of our Group. Mr. Chen has taken a business administration course at University of Helsinki. He was employed as the deputy general manager of Hunan Nanshan Dairy Farm* (湖南省南山牧場), the general manager of Nanshan Green Food Development Co., Ltd (南山綠色食品(乳品)開發總公司), a director, an assistant to the president and an asset controller of Hunan Ava Seed, the general manager of Hunan Ava Nanshan Dairy product branch* (湖南亞華南山乳品分公司) and Nanshan Dairy Marketing Company* (南山乳業營銷有限公司). Mr. Chen has substantial experience in cattle breeding, management of cattle farm, production and marketing of dairy products and its business management.

Ms. Ng Siu Hung ("Ms. Ng"), formerly known as Wu Shaohong, aged 42, became our executive Director on 19 September 2009. Ms. Ng is primarily responsible for investor relations and our Group's public announcements. She studied Applied English Language at Changsha University and graduated at The University of Westminster, the United Kingdom with a Master's of Arts degree in Human Resource Management. She was the representative of a computer network company and then, a manager of a trading company for about 2 years. From 2004 to present, Ms. Ng is a director of Hunan Yukai Real Estate Development Co., Ltd* (湖南宇凱房地產有限公司). She is the officer of Public Relations of Hunan XinDaXin Co., Ltd* (湖南新大新股份有限公司).

Independent non-executive Directors

Mr. Qiu Weifa ("Mr. Qiu"), aged 66, became our independent non-executive Director on 19 September 2009. Mr. Qiu graduated from the Central University of Finance and Economics* (中央財政金融學院) and has senior economist qualifications* (高級經濟師). Mr. Qiu was the vice general manager of the Bank of China (Singapore branch), the alternate general manager of the Bank of Guangdong province (Singapore branch) and the head of branch (行長) of the Bank of China (Hunan province branch). He has over 30 years of experience in the banking sector, holding management positions at various banking institutions.

Mr. Jason Wan ("Mr. Wan"), formerly known as Wan Xiansheng, aged 47, became our independent non-executive Director on 19 September 2009. Mr. Wan completed a Doctor of Philosophy (PhD) Degree at Deakin University, Australia. Prior to that, he graduated with a Bachelor of Science at Hunan Agricultural University and a Master of Science in dairy science and processing at Northeast Agricultural University. Mr. Wan was a lecturer in the department of food science and technology at the Northeast Agricultural University, and a visiting scientist at the Food Research Institute at the Department of Agriculture in Victoria, Australia. Mr. Wan was a post-doctoral researcher in the department of biochemistry at the University of Melbourne, a senior research scientist at CSIRO Food Science Australia and a research professor in food microbiology and biotechnology at the Illinois Institute of Technology, USA. Mr. Wan has extensive knowledge and expertise in the areas of processing technologies for food safety, dairy processing and the functionality of various ingredients of dairy products. He has written many articles over the years on various subjects, including microbiology and biotechnology, and continues to develop his expertise in these subjects. Mr. Wan has also received numerous scholarships and research grants, with the most recent research grants being a PhD scholarship relating to whey proteins and biological properties, as well as a major research grant for research relating to dairy processing.

Directors' and Senior Management's Biographies

Mr. Chan Yuk Tong ("Mr. Chan"), aged 48, became our independent non-executive Director on 19 September 2009. Mr. Chan graduated from the University of Newcastle in Australia with a bachelor's degree in Commerce, and from The Chinese University of Hong Kong with a master's degree in business administration. Mr. Chan is a practising fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Mr. Chan was an audit principal at Ernst & Young and a finance director and sales director at G2000 (Apparel) Limited in 2000. Mr. Chan has over 22 years in auditing, accounting, managerial and financial consultation experience. His appointments as executive director, non-executive director, independent non-executive director or director of publicly listed companies are as follows:

Listed Company	Role	Period
Asia Cassava Resources Holdings Limited	Executive director	July 2008 to August 2010
Vitop Bioenergy Holdings Limited	Executive director	September 2005 to February 2008
	Non-executive director	February 2008 to present
Xinhua Winshare Publishing And Media Co., Ltd. (formerly known as Sichuan Xinhua Winshare Chainstore Co., Ltd)	Independent non-executive director	April 2006 to present
Thunder Sky Battery Limited (formerly known as Jia Sheng Holdings Limited)	Independent non-executive director	November 2006 to present
Daisho Microline Holdings Limited	Independent non-executive director	September 2004 to present
Kam Hing International Holding Limited	Independent non-executive director	March 2004 to present
BYD Electronic (International) Company Limited	Independent non-executive director	November 2007 to present
Anhui Conch Cement Company Limited	Independent non-executive director	June 2006 to present
Global Sweeteners Holdings Limited	Independent non-executive director	June 2008 to present
Trauson Holdings Company Limited	Independent non-executive director	June 2010 to present
Great Wall Motor Company Limited	Independent non-executive director	May 2010 to November 2010

Directors' and Senior Management's Biographies

SENIOR MANAGEMENT

Mr. Xiao Shihu ("Mr. Xiao"), aged 36, is the chief operating officer of Ausnutria China. He joined our Group shortly after the establishment of Ausnutria China. Mr. Xiao graduated from the Huazhong Institute of Science and Technology* (華中科技大學) with a degree in Master of Economics. Mr. Xiao has 14 years of experience in this industry at dairy products marketing, operations management and strategies management since 1997. From December 2003 to present, he is the director of marketing of our Group and is primarily responsible for all marketing activities of our Group.

Mr. Dai Lianyu ("Mr. Dai"), aged 42, is the chief financial officer of Ausnutria China. He joined our Group on 27 December 2005. Mr. Dai graduated from Hunan Finance and Economy College* (湖南財經學院) and is a chartered accountant. From April 2005 to December 2005, Mr. Dai was employed at Changsha Xin Da Xin Group as the vice manager in the auditing department. From February 2006 to present, he is the chief financial controller of Ausnutria China and is primarily responsible for overseeing the financial affairs of our Group. He has approximately 5 years of experience in the industry.

Mr. Liu Yuehui ("Mr. Liu"), aged 47, is the vice president of Ausnutria China. He joined our Group shortly after the establishment of Ausnutria China on 26 December 2003. Mr. Liu studied dairy techniques at the Inner Mongolia Light Manufacturing School* (內蒙古輕工業學校). Mr. Liu has held management positions in various dairy factories and has approximately 10 years of experience in the industry. During January 2001 to October 2003, Mr. Liu was the assistant of the chief executive officer of Hunan Ava Nanshan Dairy Products Company Limited* (湖南亞華南山乳品營銷有限公司) ("Hunan Ava Nanshan"), a company owned by Hunan Ava Seed at the time, and established in the PRC whose shares are listed on the Shenzhen Stock Exchange. From 2003 to present, Mr. Liu is the vice president of Ausnutria China and is primarily responsible for recruitment, human resourcing, development and administrative functions of our Group.

Mr. Dai Zhiyong ("Mr. Dai"), aged 36, is the chief engineer of Ausnutria China. He joined our Group shortly after the establishment of Ausnutria China on 18 September 2003. Mr. Dai graduated from Xiang Tan University* (湘潭大學) with a degree in Bachelor of Chemistry. Mr. Dai held a management position in a dairy products company for a few years and has 11 years of experience in the industry. Mr Dai was employed by Hunan Ava Nanshan Dairy Products Company Limited* (湖南亞華南山乳業有限公司) as the vice factory manager, the person in charge of the research and development department and engaged in milk powder research and development works of Inner Mongolia Ya Ke Shi Ru Factory* (內蒙古牙克石乳品廠). Mr. Dai is the chief engineer of Ausnutria China, primarily responsible for managing the daily operations of the technical department of our Group and for ensuring the overall compliance status of our Group's new products and their development.

Mr. Li Wei ("Mr. Li"), aged 34, is the production officer and the general manager of the production department of our Group. He joined our Group shortly after the establishment of Ausnutria China on 26 December 2003. Mr. Li graduated from Hunan Agriculture University* (湖南農業大學) with a degree in Bachelor of Food Technique. Prior to joining our Group, Mr. Li held management positions at a dairy products company. Mr. Li has 9 years of experience in the dairy industry. He was employed by Hunan Ava Nanshan as the supervisor of the quality control centre, the external supervisor for quality control and the external vice department head. From December 2003 to present, he is the general manager of the production department of our Group and is primarily responsible for managing the quality, logistics and production at Ausnutria China.

Directors' and Senior Management's Biographies

Mr. Yang Mingqing ("Mr. Yang"), aged 45, is the assistant to the chief executive officer and the internal audit manager of the finance department of our Group. Mr. Yang graduated from Hunan Forestry School* (湖南省林業學校). He joined our Group shortly after the establishment of Ausnutria China on 26 December 2003. Prior to joining our Group, Mr. Yang was in charge of the accounting department of various companies and has 10 years of experience in this industry. He was employed by Hunan Ava Nanshan as the chief accountant of the finance department. From September 2003 to December 2010, he was the department manager as well as the assistant to the chief executive officer and general manager of the finance department of Ausnutria China and is primarily responsible for accounting and financial matters relating to our Group. From 2011 onwards, Mr. Yang is appointed as the Group's internal audit manager and is primarily responsible for our Group's internal audit department.

Mr. Qu Zhishao ("Mr. Qu"), aged 33, is the sales officer of Ausnutria China. He joined Ausnutria China since its incorporation and was the marketing supervisor, district manager, assistant to chief executive officer and sales officer of the southern district. Mr. Qu holds a bachelor degree of Arts from Xiang Tan University* (湘潭大學) and has engaged in dairy advertising strategy, sales planning, and management in marketing and sales since 2001 with 11 years' of experience in the related industry.

COMPANY SECRETARIES

Ms. Ng Siu Hung ("Ms. Ng"), aged 42, is a joint company secretary. She works for our Company on a fulltime basis. Ms. Ng's biographical details are set out under the section headed "Directors' and Senior Management's Biographies – Directors – Executive Directors" above.

Mr. Lam Hiu Fung ("Mr. Lam"), aged 39, has over 16 years of experience in auditing, accounting and financial management. Mr. Lam was appointed as a joint company secretary on 16 August 2010. Prior to joining our Company, Mr. Lam has worked for KPMG from 1994 to 2003 and has been the Chief Financial Controller and Company Secretary of Artini China Company Limited (stock code: 00789), a company listed on the main board of the Stock Exchange from 2006 to 2009 and the Financial Controller of Bloomage BioTechnology Corporation Limited (stock code: 00963), a company listed on the main board of the Stock Exchange in 2010. Mr. Lam graduated from The Chinese University of Hong Kong with a bachelor degree of Business Administration. He is a Chartered Financial Analyst, a member of the Hong Kong Institute of Certified Public Accountants and an Associate of the Charted Institute of Arbitrators. Mr. Lam is also a fellow member of the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong.

* *For identification purposes only.*

Corporate Governance Report

DIRECTORS' RESPONSIBILITY ON THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2010, which were prepared in accordance with statutory requirements and applicable accounting standards.

The reporting responsibilities of the external auditor on the financial statements are set out in the "Independent Auditors' Report" on pages 34 to 35.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "CCGP") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). In the opinion of the Directors, the Company has complied with the code provisions set out in the CCGP throughout the year.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the Model Code throughout the reporting period.

BOARD OF DIRECTORS AND BOARD MEETING

Board Of Directors

The Board comprises four executive Directors and three independent non-executive Directors. The Board members have no financial, business, family or other material/relevant relationships with each other. The Board's composition is formed to be well balanced to ensure strong independence exists across the Board. The biographies of the Directors are set out on pages 17 to 19, with details of diversity of skills, expertise, experience and qualifications concerning the Directors.

The Board is responsible for the leadership and management of the Group's businesses as well as its strategic planning and performances. The management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the board committees. Details of these committees are set out in this report.

The Board comprises the chairman, executive Directors and independent non-executive Directors and has been disclosed in all of the Company's announcements, circulars and its website.

Board Meetings

The Board usually holds four full board meetings in each year and meets as and when required. Up to date of this report, four board meetings were held and the attendances of the Directors at the board meetings were as follows:

	Number of attendance
Executive Directors	
Mr. Wu Yueshi *(Chairman)*	3/4
Mr. Yan Weibin	4/4
Mr. Chen Yuanrong *(Chief Executive Officer)*	4/4
Ms. Ng Siu Hung	4/4
Independent non-executive Directors	
Mr. Qiu Weifa	4/4
Mr. Jason Wan	4/4
Mr. Chan Yuk Tong	4/4

The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting.

Board minutes are kept by the Company Secretary of the Company and are sent to the Directors for records and are open for inspection by the Directors.

Chairman and Chief Executive Officer

The Company has, since the early stage of its incorporation, segregated the duties of the Chairman of the Board and the Chief Executive Officer. The Chairman of the Board and the Chief Executive Officer are separately held by Mr. Wu Yueshi and Mr. Chen Yuanrong in order to preserve independence and have a balanced judgement of views. The Chairman of the Board has the responsibilities to lead the Board and make sure it works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. The Chief Executive Officer has the responsibilities to manage and execute the Group's business directions and operation decisions. In addition, the Board also comprises independent non-executive Directors who can provide the Board with independent judgements, knowledge and experience.

Executive Directors

The four executive Directors have entered into service contracts with the Company for a term of three years commencing on 8 October 2009 up to 7 October 2012.

Independent Non-executive Directors

The three independent non-executive Directors have entered into service contracts with the Company for a term of two years commencing on 8 October 2009 up to 7 October 2011.

The Company has received annual confirmations of independence from the three independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules and considers them to be independent.

Remuneration of Directors

The Company has set up a remuneration committee which consists of one executive Director, Mr. Wu Yueshi (Chairman) and three independent non-executive Directors, Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong.

The roles and functions of the remuneration committee include the determination of the remuneration packages of all executive directors, including their benefits in kind, pension rights and compensation payments, any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board for the remuneration of non-executive Directors. The remuneration committee also considers factors such as salaries of comparable companies, time commitment and responsibilities of the Directors, employment conditions within the Group and performance. The primary duties of the remuneration committee are to consider and recommend to the Board the emoluments and other benefits paid by us to the Directors and to assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of talented individuals.

Up to the date of this report, one meeting of the remuneration committee was held and details of the attendance were as follows:

Committee member	Number of attendance
Mr. Wu Yueshi	1/1
Mr. Qiu Weifa	1/1
Mr. Jason Wan	1/1
Mr. Chan Yuk Tong	1/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and considered that the existing terms of employment contracts of the executive Directors are fair and reasonable.

Appointment, re-election and removal of Directors

Subject to article 84 of the Company's amended articles of association, directors shall be elected at the general meeting each for a term of not more than three years and one-third of the directors shall retire from office at the annual general meeting. Every director (including directors with fixed terms of appointment) shall be subject to retirement by rotation at least once every three years; and that any director appointed as an addition or to fill a casual vacancy on the Board shall be subject to re-election by shareholders at the first general meeting after his appointment.

Nomination Committee

The Company has established a nomination committee which comprises one executive Director, Mr. Wu Yueshi (Chairman) and three independent non-executive Directors Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong. The primary duties of the nomination committee are to formulate the nomination procedures and standards for candidates for Directors and senior management, to conduct preliminary review of the qualifications and other credentials of the candidates for Directors and senior management and to recommend suitable candidates for Directors and senior management to the Board. In identifying suitable director candidates and making such recommendations to the Board, the nomination committee would also take into account various aspects of a candidate, including but not limited to his/her education background, professional experience, experience with the relevant industry and past directorships.

Up to date of this report, one meeting of the nomination committee was held and details of the attendance were as follows:

Committee member	Number of attendance
Mr. Wu Yueshi	1/1
Mr. Qiu Weifa	1/1
Mr. Jason Wan	1/1
Mr. Chan Yuk Tong	1/1

Auditors' Remuneration

For the year ended 31 December 2010, apart from the provisions of annual audit services, the Group's external auditors, Ernst & Young, were also the reporting accountants of the Company in relation to the listing. For the year ended 31 December 2010, the total fee paid/payable in respect of audit and non-audit services provided by the Group's external auditors is set out below:

	2010 **RMB'000**	2009 RMB'000
Professional services rendered in connection with the listing of the Group	–	3,728
Non-audit services	–	355
Audit services	**1,380**	900
	1,380	4,983

Audit Committee

The audit committee is responsible for making recommendation to the Board as to the appointment, re-appointment and removal of the external auditors, which is subject to the approval by the Board and at the general meetings of the Company by the shareholders.

The Company has an audit committee which was established with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules. The primary duties of the audit committee are to provide our Board with an independent review of the effectiveness of the financial reporting process, internal control and risk management of our Group, to oversee the audit process and to perform other duties and responsibilities stated in the written terms of reference. The audit committee comprises three independent non-executive Directors, Mr. Chan Yuk Tong (Chairman), Mr. Qiu Weifa and Mr. Jason Wan. The Company's and the Group's financial statements for the year ended 31 December 2010 have been reviewed by the audit committee.

The audit committee members are well experienced in management, accounting, finance, commercial and industrial sectors.

The audit committee held two meeting up to date of this report and details of its attendance were as follows:

Committee member	Number of attendance
Mr. Chan Yuk Tong	2/2
Mr. Jason Wan	2/2
Mr. Qiu Weifa	2/2

Full minutes of audit committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the audit committee meetings were sent to all members of the committee for their comments and records respectively within a reasonable time after the meeting.

The audit committee meets the external auditors at least once a year to discuss issues concerning the statutory audit. The audit committee reviews the quarterly, interim and annual reports before submission to the Board. The committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Group's interim and annual reports.

Internal Control

The Company and its subsidiaries have to conduct at least annually a review of its system of internal control to ensure the effectiveness and adequacy of internal control system including finance, operations and risk management. The reports and findings prepared by the internal audit team have to be circulated to the relevant committee delegated by the Board. If necessary, the internal audit team will submit their findings and the proposed audit plan to the audit committee for its approval. A review of system of internal control has been undergone during the year under review and the Directors are satisfied that the Group has maintained sound and effective internal controls.

Shareholders' Relations

The Company has published all of its announcements on time in accordance with the Listing Rules. In addition to the participation of analyst meetings to liaise with shareholders, the Company also provides the most updated information on its website to maintain a different communication channel with its shareholders. Besides, all executive Directors will be present in the forthcoming annual general meeting of the Company to communicate and answer to the questions raised by shareholders and significant issues will be put as separate proposed resolutions.

Report of the Directors

The Directors present their report and the audited financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company of the Group. The Group is principally engaged in the production, marketing and distribution of high-priced and premium-priced paediatric milk formula products in the People's Republic of China (the "PRC"). Details of the principal activities of the Company's subsidiaries are set out in note 20 to the financial statements of this annual report. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 36 to 87.

The Directors recommend the payment of a final dividend of HK$3 cents per ordinary share for the year ended 31 December 2010 to shareholders whose name appear on the register of members of the Company on 9 May 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company in Hong Kong will be closed from 11 May 2011 to 16 May 2011 (both dates inclusive) during which period no transfer of shares will be registered. To be qualified to attend the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 9 May 2011.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years is set out on page 88. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statement of this annual report.

SHARE CAPITAL

Details of movements in the Company's authorised or issued share capital during the year are set out in note 31 to the financial statement of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's amended articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2010, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

Subsequent to the balance sheet date, being 31 December 2010, the Company repurchased its 57,840,000 shares listed on the Stock Exchange in 2011. These shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Details of the repurchases during 2011 are summarised as follows:

Month of repurchases	Number of shares repurchased	Highest price per share HK$	Lowest price per share HK$	Aggregate consideration paid HK$
January 2011	4,046,000	2.85	2.56	11,005,000
February 2011	53,794,000	2.55	2.38	133,483,920
	57,840,000			144,488,920

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements of this annual report and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company's accumulated losses amounted to approximately RMB29,778,000 (2009: RMB409,000). In addition, the Company's share premium account, in the amount of RMB649,167,000 (2009: RMB675,843,000) may be distributed in the form of a future capitalisation issue.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 22% (2009: 28.7%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 9% (2009: 8.7%). Purchases from the Group's five largest suppliers accounted for approximately 87% (2009: 92.3%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 82.2% (2009: 81.5%).

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers and five largest customers.

Report of the Directors

DIRECTORS

The Directors of the Company during the year were:

Executive Directors
Mr. Wu Yueshi
Mr. Yan Weibin
Mr. Chen Yuanrong
Ms. Ng Siu Hung

Independent non-executive Directors
Mr. Qiu Weifa
Mr. Jason Wan
Mr. Chan Yuk Tong

In accordance with article 84 of the Company's amended articles of association, the directors shall be elected at the general meeting each for a term of not more than three years. One-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office at the annual general meeting (the "AGM"). Every director (including directors with fixed terms of appointment) shall be subject to retirement by rotation at least once every three years. Any person appointed as a director either to fill a casual vacancy or as an addition to the board of directors shall be subject to election by shareholders at the first general meeting after the appointment. Ms. Ng Siu Hung, Mr. Jason Wan and Mr. Qiu Weifa will retire by rotation at the conclusion of the forthcoming AGM and being eligible, offer themselves for re-election. An ordinary resolution approving their re-elections will be proposed at the forthcoming AGM.

The Company has received annual confirmations of independence from Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong, in accordance with Rule 3.13 of the Listing Rules and considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Directors' and Senior Management's Biographies" of this annual report.

DIRECTORS' SERVICE CONTRACTS

The four executive Directors have entered into service contracts with the Company for a term of three years commencing on 8 October 2009 up to 7 October 2012.

The three independent non-executive Directors have entered into service contracts with the Company for a term of two years commencing 8 October 2009 up to 7 October 2011.

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' salaries are subject to shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save for the related party transactions set out in note 36 to the financial statements in this annual report, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, the interests and short positions of the Directors and chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Appendix 10 to the Listing Rules, were as follows:

Name	Number of Ordinary Share	Nature of Interest	Percentage of issued share capital
Mr. Wu Yueshi ("Mr. Wu") (i)	474,646,000	Interest of controlled corporation	45.42%
Mr. Chen Yuanrong ("Mr. Chen) (ii)	107,000,000	Interest of controlled corporation	10.24%
Mr. Yan Weibin ("Mr. Yan") (iii)	200,000,000	Interest of controlled corporation	19.14%

Note:

(i) The shareholding interest of Mr. Wu is being held through Brave Leader Limited ("Brave Leader"), Silver Castle International Limited ("Silver Castle") and Ausnutria Holding Co. Ltd. ("Ausnutria BVI").

(ii) The shareholding interest of Mr. Chen is being held through All Harmony International Limited ("All Harmony").

(iii) The shareholding interest of Mr. Yan is being held through Brave Leader, Silver Castle and Ausnutria BVI.

Save as disclosed above, as at 31 December 2010, none of the Directors and chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Appendix 10 to the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Number of Ordinary Share	Nature of Interest	Percentage of issued share capital
All Harmony International Limited ("All Harmony")[1]	107,000,000	Registered owner	10.24%
Brave Leader Limited ("Brave Leader")[2]	214,646,000	Registered owner	20.54%
Silver Castle International Limited ("Silver Castle")[3]	60,000,000	Registered owner	5.74%
Ausnutria Holding Co Ltd ("Ausnutria BVI")[4]	200,000,000	Registered owner	19.13%
Mr. Chen Yuanrong[1]	107,000,000	Interest of controlled corporation	10.24%
Mr. Wu Yueshi[2,3,4]	474,646,000	Interest of controlled corporation	45.42%
Ms. Xiong Fanyi ("Mrs. Y Wu")[5]	474,646,000	Family interest	45.42%

Note:

1. All Harmony is owned as to 49.22% by Mr. Chen and 20 former and present employees of the Group.

2. Brave Leader is owned as to 59.57% by Mr. Wu, 30.67% by Ms. Wu Xing Xing (Ms. X Wu), the elder sister of Mr. Wu and 9.76% by Mr. Yan.

3. Silver Castle is owned as to 59.57% by Mr. Wu, 30.67% by Ms. X Wu and 9.76% by Mr. Yan.

4. Ausnutria BVI is owned as to 60% by Mr. Wu, 30% by Mr. Yan and 10% by Mrs. Y Wu.

5. Mrs. Y Wu is the spouse of Mr. Wu and is deemed to be interested in the shares held by Mr. Wu, Brave Leader, Silver Castle and Ausnutria BVI pursuant to the SFO.

Save as disclosed above, as at 31 December 2010, no person, other than the Directors, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected transactions

Details of the connected transactions of the Group are set out in note 36 to the financial statements of this annual report.

The connected transactions are exempt continuing connected transactions under Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed the continuing connected transactions of the Group and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favorable to the Group than terms available to independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have performed procedures in respect of the transactions in accordance with Hong Kong Standard on Related Services 4400 Engagements to Perform Agreed Upon Procedures Regarding Financial Information. Based on the work performed, the auditors of the Company have provided a letter and confirmed that the aforesaid continuing connected transactions (i) have been approved by the Board; (ii) are in accordance with the pricing policies of the Group; (iii) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (iv) have not exceeded the caps as exempted continuing connected transactions.

In respect of the related party transactions as set out in note 36 to the financial statements of this annual report, the Company has complied with the relevant requirements under Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to date of this report, none of the Directors had an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

COMPLIANCE ADVISORS' INTEREST

As updated and notified by the Company's compliance advisor, China Merchants Securities (HK) Co., Limited ("CMS"), as at 31 December 2010, neither CMS nor any of its directors, employees or associates had any interests in the shares of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company or any member of the Group.

Pursuant to the compliance advisor agreement dated 23 September 2009 entered into with the Company, CMS received and will receive fees for acting as the Company's compliance advisor for the period commencing on the Listing Date and ending on the date which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial result for the first full financial year after the Listing Date.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the year of 2010.

A report on the principle corporate governance practices adopted by the Company were set out in the section headed "Corporate Governance Report" of the annual report.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Wu Yueshi
Chairman

Changshai City, China
28 March 2011

Independent Auditors' Report

ERNST & YOUNG
安 永

Ernst & Young
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

To the shareholders of Ausnutria Dairy Corporation Ltd
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Ausnutria Dairy Corporation Ltd (the "Company") and its subsidiaries (together, the "Group") set out on pages 36 to 87, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

28 March 2011

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	5	579,333	623,777
Cost of sales		(261,789)	(315,530)
Gross profit		317,544	308,247
Other income and gains	5	21,520	6,898
Selling and distribution costs		(174,449)	(91,947)
Administrative expenses		(21,584)	(10,565)
Other expenses	6	(20,367)	(41)
Finance costs	7	(1,369)	(4,184)
Share of losses of associates	21	(104)	–
Profit before tax	8	121,191	208,408
Income tax expense	12	(11,024)	(26,288)
PROFIT FOR THE YEAR		110,167	182,120
Other comprehensive income:			
Exchange difference on translating foreign operations		138	(210)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		110,305	181,910
Profit attributable to owners of the parent	13	110,167	182,120
Total comprehensive income attributable to:			
Owners of the parent		110,305	181,910
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– basic (RMB)	15	10.5 cents	21.3 cents

Details of the dividends payable and proposed for the year are disclosed in note 14 to the financial statements.

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**38,161**	26,934
Lease prepayments for land use rights	17	**2,256**	2,313
Intangible assets	18	**1,855**	326
Deferred tax assets	19	**4,017**	–
Investments in associates	21	**2,611**	–
Long-term prepayment	22	**23,108**	–
Total non-current assets		**72,008**	29,573
CURRENT ASSETS			
Inventories	23	**76,963**	44,787
Trade and bills receivables	24	**120,963**	18,047
Prepayments, deposits and other receivables	25	**80,734**	68,808
Held-to-maturity investments	26	**200,000**	–
Tax recoverable		**14,973**	–
Cash and cash equivalents	27	**638,984**	1,465,887
Total current assets		**1,132,617**	1,597,529
CURRENT LIABILITIES			
Trade payables	28	**8,784**	25,358
Other payables and accruals	29	**60,169**	164,620
Interest-bearing bank loans	30	**–**	350,000
Tax payable		**–**	6,551
Total current liabilities		**68,953**	546,529
NET CURRENT ASSETS		**1,063,664**	1,051,000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,135,672**	1,080,573
Net assets		**1,135,672**	1,080,573
EQUITY			
Equity attributable to the owners of the parent			
Issued capital	31	**92,066**	92,066
Share premium	32	**649,167**	675,843
Proposed final dividend	14	**26,676**	55,206
Other reserves		**367,763**	257,458
Total equity		**1,135,672**	1,080,573

Director *Director*

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

		Attributable to owners of the parent							
			Share		Statutory	Exchange		Proposed	
		Issued	premium	Capital	surplus	fluctuation	Retained	final	Total
		capital	account	reserves	reserve	reserve	earnings	dividend	equity
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note 31)	(note 32(a))	(note 32(a))	(note 32(a))				
At 1 January 2009		–	–	23,406	8,555	20	73,567	–	105,548
Profit for the year		–	–	–	–	–	182,120	–	182,120
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		–	–	–	–	(210)	–	–	(210)
Total comprehensive income/(loss) for the year		–	–	–	–	(210)	182,120	–	181,910
Contribution from the owners		–	–	102,479	–	–	–	–	102,479
Distribution to the owners	32(a)			(102,479)	–	–	–	–	(102,479)
Capitalisation issue	32(a)	70,438	(70,438)	–	–	–	–	–	–
Issues of shares	32(a)	21,628	841,771	–	–	–	–	–	863,399
Share issue expenses		–	(40,284)	–	–	–	–	–	(40,284)
Special dividend declared and paid		–	–	–	–	–	(30,000)	–	(30,000)
Proposed final 2009 dividend	14	–	(55,206)	–	–	–	–	55,206	–
Transfer to statutory surplus reserve		–	–	–	18,043	–	(18,043)	–	–
At 31 December 2009		92,066	675,843	23,406*	26,598*	(190)*	207,644*	55,206	1,080,573
At 1 January 2010		92,066	675,843	23,406	26,598	(190)	207,644	55,206	1,080,573
Profit for the year		–	–	–	–	–	110,167	–	110,167
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		–	–	–	–	138	–	–	138
Total comprehensive income for the year		–		–	–	138	110,167	–	110,305
Final 2009 dividend declared		–	–	–	–	–	–	(55,206)	(55,206)
Proposed final 2010 dividend	14	–	(26,676)	–	–	–	–	26,676	–
Transfer to statutory surplus reserve		–	–	–	12,812	–	(12,812)	–	–
At 31 December 2010		92,066	649,167	23,406*	39,410*	(52)*	304,999*	26,676	1,135,672

* These components of equity comprise the other reserves of RMB367,763,000 (2009: RMB257,458,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		121,191	208,408
Adjustments for:			
Finance costs	7	1,369	4,184
Interest income	5	(3,892)	(4,194)
Depreciation	8	2,979	2,254
Loss on disposal of property, plant and equipment		–	23
Share of losses of associates	21	104	–
Interest income on held-to-maturity investments	5	(9,038)	–
Amortisation of intangible assets	8	118	67
Amortisation of lease prepayments for land use rights	8	57	57
		112,888	210,799
(Increase)/decrease in inventories		(32,176)	35,178
Increase in trade and bills receivables		(102,916)	(11,692)
Increase in prepayments, deposits and other receivables		(24,053)	(40,498)
Increase/(decrease) in trade payables		(16,574)	10,878
Increase/(decrease) in other payables and accruals		(18,999)	23,386
Cash generated from/(used in) operations		(81,830)	228,051
Interest paid		(1,369)	(4,184)
Interest received		3,892	4,194
Income tax paid		(36,565)	(26,861)
Net cash flows from/(used in) operating activities		(115,872)	201,200
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(14,206)	(3,041)
Proceeds from disposal of property, plant and equipment		–	264
Purchase of intangible assets		(1,647)	–
Purchase of held-to-maturity investments		(200,000)	–
Investments in associates		(2,715)	–
Interest income on held-to-maturity investments		9,038	–
(Increase)/decrease in amounts due from related parties included in prepayments, deposits and other receivables and long-term prepayment		(23,113)	5,555
Net cash flows from/(used in) investing activities		(232,643)	2,778

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		–	510,000
Repayment of bank loans		(350,000)	(190,000)
Gross proceeds from issuance of new shares upon listing		–	863,399
Payment of listing expenses		–	(40,284)
Dividend paid		(53,333)	(30,000)
Increase/(decrease) in amounts due to related parties included in other payables and accruals		(73,320)	71,345
Net cash flows from/(used in) financing activities		(476,653)	1,184,460
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(825,168)	1,388,438
Cash and cash equivalents at beginning of year		1,465,887	77,659
Effect of foreign exchange rate changes, net		(1,735)	(210)
CASH AND CASH EQUIVALENTS AT END OF YEAR		638,984	1,465,887
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	27	638,984	1,465,887

Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	20	171,320	171,320
Total non-current assets		171,320	171,320
CURRENT ASSETS			
Prepayments, deposits and other receivables	25	388,722	10,966
Cash and cash equivalents	27	382,152	906,905
Total current assets		770,874	917,871
CURRENT LIABILITIES			
Other payables and accruals	29	32,743	95,165
Total current liabilities		32,743	95,165
NET CURRENT ASSETS		738,131	822,706
TOTAL ASSETS LESS CURRENT LIABILITIES		909,451	994,026
Net assets		909,451	994,026
EQUITY			
Issued capital	31	92,066	92,066
Share premium	32(b)	649,167	675,843
Proposed final dividend	14	26,676	55,206
Other reserves	32(b)	141,542	170,911
Total equity		909,451	994,026

Director *Director*

1. CORPORATE INFORMATION

Ausnutria Dairy Corporation Ltd (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2009. The registered office of the Company is located at Room 2101, Beautiful Group Tower, 77 Connaught Road Central, Central, Hong Kong. The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 October 2009.

The Company acts as an investment holding company of the Group. The Group is principally engaged in the production, marketing and distribution of high-end and premium paediatric nutrition products in the People's Republic of China (the "PRC").

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board (the "IASB"), and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.1 BASIS OF PRESENTATION (continued)

Basis of consolidation (continued)

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the financial statements for the year ended 31 December 2010.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
Amendments to IFRS 5	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	Amendment to IAS 39 Financial Instruments: *Recognition and Measurement – Eligible Hedged Items*
IFRIC 17	*Distribution of Non-cash Assets to Owners*
IFRIC 18	*Transfer of Assets from Customers*

Apart from the above, the Group has adopted the following improvements to IFRSs issued by IASB in April 2009 for the first time in the current year: amendments to IFRS 2, IAS 36, IFRIC 9, IFRIC 16, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 38 and IAS 39.

The adoption of these new and revised IFRSs has had no significant financial effect on the consolidated financial statements and there have been no significant changes to the accounting policies applied in the consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective in these financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*[2]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
IFRS 7 Amendments	Amendments to IFRS 7 Financial Instruments: *Disclosures – Transfers of Financial Assets* [4]
IFRS 9	*Financial Instruments*[6]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[5]
IAS 24 (Revised)	*Related Party Disclosures*[3]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3, IAS 27, are effective for annual periods beginning on or after 1 July 2010 whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34, IFRIC 13, are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating polices the Company controls, directly or indirectly, so as to obtain benefits from its activities.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries (continued)

The results of subsidiaries are included in the Company's statement of comprehensive income on the extent of dividends received and receivable.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investment in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates in included in the consolidated statements of comprehensive income and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included at as part of the Group's investments in associated and is not individually tested for impairment.

The results of associates are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in associates are tested as non-current assets and are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired assets.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment other than construction in progress, is stated at cost net of accumulated depreciation and accumulated impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statements of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings	25 years
Machinery	5 – 8 years
Motor vehicles	5 years
Office equipment	5 years
Leasehold improvements	8 years

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and methods of depreciation are reviewed and adjusted if at least appropriate, at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Non-patent technology, trademarks and software

Purchased non-patent technology, trademarks and software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequent recognised on the straight-line basis over the lease terms.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as loans and receivables and held-to-maturity investments. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade receivables, other receivables and held-to-maturity investments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in other expenses.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in other expenses.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or

- The Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and interest-bearing bank loans.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant related to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the revenue can be reliable measured, on the following bases:

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(ii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme in Hong Kong (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to the statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the end of reporting period. All differences are taken to the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their statements of comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of comprehensive income.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected the future periods.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the consolidated financial statements:

Classification of held-to-maturity investments

The Group determines whether an investment qualifies as a held-to-maturity investment and has developed criteria in making that judgement. A held-to-maturity investment is a non-derivative financial asset with fixed or determinable payments and fixed maturity when the Group has the positive intention and ability to hold to maturity. Judgement is made on an individual investment basis to determine whether the Group has the intention and the ability to hold the investment to maturity.

Estimates uncertainly

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimates uncertainly (continued)

Impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the trade receivables and impairment loss in the period in which such estimate has been changed. The impairment loss recognised as at 31 December 2010 was nil (2009: Nil). Further details are contained in note 24.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residues values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances. The depreciation provided for the year ended 31 December 2010 was RMB2,979,000 (2009: RMB2,254,000). Further details are contained in note 16.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group has a single operating and reportable segment, which engages in the production, marketing and distribution of high-end and premium paediatric nutrition products in the PRC (including Hong Kong and Macau). All of the Group's revenue from external customers and operating profit are generated from this single segment. During the year, all of the Group's non-current assets were located in the PRC. None of the Group's sales to a single external customer amounted to 10% or more of the Group's revenue during the year (2009: None).

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after deduction of allowances for returns and trade discounts.

An analysis of the Group's revenue, other income and gains is as follows:

	2010 RMB'000	2009 RMB'000
Revenue		
Sale of goods	579,333	623,777
Other income and gains		
Interest income	3,892	4,194
Interest income on held-to-maturity investments	9,038	–
Government grants	4,668	–
Others	3,922	2,704
Total other income and gains	21,520	6,898

6. OTHER EXPENSES

	2010 RMB'000	2009 RMB'000
Foreign exchange loss	15,355	18
Write-off of trade receivables	4,956	–
Others	56	23
	20,367	41

7. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interest on a bank loan wholly repayable within five years	1,369	4,184

8. PROFIT BEFORE TAX

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

	Notes	2010 RMB'000	2009 RMB'000
Cost of inventories sold		261,789	315,530
Depreciation	16	2,979	2,254
Amortisation of lease prepayments for land use rights	17	57	57
Amortisation of intangible assets	18	118	67
Minimum lease payments under operating leases:			
Land and buildings		402	420
Loss on disposal of property, plant and equipment		–	23
Write-off of trade receivables	6	4,956	–
Auditors' remuneration		1,350	900
Advertising and promotion expenses		134,514	65,908
Employee benefit expenses			
(including directors' emoluments (note 10)):			
Wages, salaries and staff welfare		29,784	13,306
Retirement benefit contributions	9	1,349	923
		31,133	14,229
Foreign exchange difference, net	6	15,355	18

9. RETIREMENT BENEFITS

The aggregate contributions of the Group to the retirement benefit scheme were approximately RMB1,349,000 for the year ended 31 December 2010 (2009: RMB923,000).

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2010 RMB'000	2009 RMB'000
Fees	**660**	167
Other emoluments:		
Salaries, allowances and benefits in kind	**772**	536
Retirement benefit contributions	**14**	5
	786	541
	1,446	708

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2010 RMB'000	2009 RMB'000
Qiu Weifa	**87**	22
Jason Wan	**87**	22
Chan Yuk Tong	**138**	35
	312	79

There were no other emoluments payable to the independent non-executive directors during the year (2009: RMB79,000).

10. DIRECTORS' REMUNERATION (continued)

(b) Executive directors:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement benefit contributions RMB'000	Total remuneration RMB'000
2010				
Wu Yueshi	87	–	–	87
Chen Yuanrong	87	512	13	612
Yan Weibin	87	–	–	87
Ng Siu Hung	87	260	1	348
	348	772	14	1,134
2009				
Wu Yueshi	22	–	–	22
Chen Yuanrong	22	536	5	563
Yan Weibin	22	–	–	22
Ng Siu Hung	22	–	–	22
	88	536	5	629

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2009: one) director, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining four (2009: four) non-director, highest paid employees for the year are as follows:

	2010 RMB'000	2009 RMB'000
Salaries, allowances and benefits in kind	1,872	776
Retirement benefit contributions	63	20
Total	1,935	796

The remuneration of each of the above non-director, highest paid employees fell within the range of nil to HK$1,000,000 (equivalent to RMB880,480).

11. FIVE HIGHEST PAID EMPLOYEES (continued)

During the year, no remuneration (2009: Nil) was paid by the Group to any of the directors of the Company or any of the non-director, highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

12. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

The Company's subsidiary, Ausnutria Dairy (China) Co., Ltd. ("Ausnutria China"), was subject to enterprise income tax ("EIT") at the statutory tax rate of 12.5% (2009: 25%) during the year under the current PRC income tax laws.

Pursuant to the then effective relevant PRC income tax laws and regulations, newly established foreign-invested enterprises that were engaged in manufacturing activities with an operation period over 10 years were eligible to apply for a two-year EIT exemption followed by a three-year 50% EIT rate reduction holiday from the first profit-making year. In accordance with the approval from the relevant tax authority in 2004, Ausnutria China was granted an EIT exemption for the two years ended 31 December 2005, and a preferential EIT rate of 15% for the two years ended 31 December 2007 and a preferential EIT rate of 12.5% for the year ended 31 December 2008. Pursuant to an approval from relevant tax authority in March 2010, the first profit-making year of Ausnutria China was revised to the year ended 31 December 2006 and therefore, Ausnutria China was granted the EIT exemption for the two years ended 31 December 2007 and a preferential EIT rate of 12.5% for the three years ended 31 December 2010. Meanwhile, Ausnutria China was also granted an income tax credit of RMB5,692,000 by state tax bureau to offset the income tax payable of 2010.

	2010 RMB'000	2009 RMB'000
Current income tax		
Current – Hong Kong	–	424
Current – PRC	15,041	25,864
Deferred income tax (note 19)	(4,017)	–
	11,024	26,288

12. INCOME TAX (continued)

A reconciliation of tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Group and the majority of its subsidiaries are domiciled to tax expense at the effective tax rates, and a reconciliation of the statutory rates to the effective tax rates, are as follows:

Group – 2010

	Hong Kong RMB'000	%	PRC RMB'000	%	Total RMB'000	%
Profit/(loss) before tax	(2,923)		124,114		121,191	
Income tax at the statutory income tax rate	(482)	16.5	31,029	25.0	30,547	25.2
Tax effects on preferential tax rates	–	–	(15,514)	(12.5)	(15,514)	(12.8)
Tax credit received	–	–	(5,692)	(4.6)	(5,692)	(4.7)
Non-deductible items and others, net	–	–	1,871	1.5	1,871	1.5
Adjustments to deferred tax assets with respect to the change in the applicable tax rate			(670)	(0.5)	(670)	(0.6)
Tax losses not recognised	482	(16.5)	–	–	482	0.4
Tax charged at the Group's effective rate	–	–	11,024	8.9	11,024	9.0

Group – 2009

	Hong Kong RMB'000	%	PRC RMB'000	%	Total RMB'000	%
Profit before tax	2,568		205,840		208,408	
Income tax at the statutory income tax rate	424	16.5	51,460	25.0	51,884	24.9
Tax effects on preferential tax rates	–	–	(25,730)	(12.5)	(25,730)	(12.3)
Non-deductible items and others, net	–	–	134	0.1	134	–
Tax charged at the Group's effective rate	424	16.5	25,864	12.6	26,288	12.6

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a loss of RMB29,369,000 (2009:RMB409,000) which has been dealt with in the financial statements of the Company (note 32 (b)).

14. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Proposed final – HK$3 cents (2009: HK$6 cents) per ordinary share	26,676	55,206

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

15. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,045,000,000 (2009: 856,191,781) in issue during the year.

Earnings

	2010 RMB'000	2009 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	110,167	182,120

Shares

	2010	2009
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,045,000,000	856,191,781

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2010 and 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2010						
At 31 December 2009 and 1 January 2010:						
Cost	17,681	12,132	2,038	851	163	32,865
Accumulated depreciation	(1,633)	(2,536)	(923)	(792)	(47)	(5,931)
Net carrying amount	16,048	9,596	1,115	59	116	26,934
At 1 January 2010, net of accumulated depreciation	16,048	9,596	1,115	59	116	26,934
Additions	1,215	162	2,487	292	10,050	14,206
Depreciation provided during the year	(858)	(1,401)	(608)	(107)	(5)	(2,979)
At 31 December 2010, net of accumulated depreciation	16,405	8,357	2,994	244	10,161	38,161
At 31 December 2010:						
Cost	18,896	12,294	4,525	1,143	10,213	47,071
Accumulated depreciation	(2,491)	(3,937)	(1,531)	(899)	(52)	(8,910)
Net carrying amount	16,405	8,357	2,994	244	10,161	38,161

16. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2009						
At 1 January 2009:						
Cost	17,425	9,556	2,038	929	163	30,111
Accumulated depreciation	(808)	(1,636)	(563)	(628)	(42)	(3,677)
Net carrying amount	16,617	7,920	1,475	301	121	26,434
At 1 January 2009,						
net of accumulated depreciation	16,617	7,920	1,475	301	121	26,434
Additions	256	2,576	–	209	–	3,041
Disposal	–	–	–	(287)	–	(287)
Depreciation provided during the year	(825)	(900)	(360)	(164)	(5)	(2,254)
At 31 December 2009,						
net of accumulated depreciation	16,048	9,596	1,115	59	116	26,934
At 31 December 2009:						
Cost	17,681	12,132	2,038	851	163	32,865
Accumulated depreciation	(1,633)	(2,536)	(923)	(792)	(47)	(5,931)
Net carrying amount	16,048	9,596	1,115	59	116	26,934

The Group's properties are situated in the PRC.

As at 31 December 2010, no property, plant and equipment (2009: RMB 16,048,000) was pledged.

17. LEASE PREPAYMENTS FOR LAND USE RIGHTS

Group

	2010 RMB'000	2009 RMB'000
Carrying amount at 1 January	**2,370**	2,427
Amortised during the year	**(57)**	(57)
Carrying amount at 31 December	**2,313**	2,370
Less: Current portion included in prepayments, deposits and other receivables	**(57)**	(57)
Non-current portion	**2,256**	2,313

The leasehold land is held under a long term lease and is situated in the PRC.

As at 31 December 2010, no leasehold land (2009: RMB2,370,000) was pledged.

18. INTANGIBLE ASSETS

Group

	Non-patent technology RMB'000	Trademarks RMB'000	Software RMB'000	Total RMB'000
31 December 2010				
Cost at 1 January 2010, net of accumulated amortisation	221	105	–	326
Additions	150	177	1,320	1,647
Amortisation	(56)	(24)	(38)	(118)
At 31 December 2010, net of accumulated amortisation	315	258	1,282	1,855
At 31 December 2010:				
Cost	650	350	1,320	2,320
Accumulated amortisation	(335)	(92)	(38)	(465)
Net carrying amount	315	258	1,282	1,855
31 December 2009				
At 1 January 2009:				
Cost	500	173	–	673
Accumulated amortisation	(229)	(51)	–	(280)
Net carrying amount	271	122	–	393
Cost at 1 January 2009, net of accumulated amortisation	271	122	–	393
Amortisation	(50)	(17)	–	(67)
At 31 December 2009	221	105	–	326
At 31 December 2009 and at 1 January 2010:				
Cost	500	173	–	673
Accumulated amortisation	(279)	(68)	–	(347)
Net carrying amount	221	105	–	326

19. DEFERRED TAX ASSETS

The movements in deferred tax assets during the year are as follows:

	2010 RMB'000	2009 RMB'000
At 1 January	–	–
Deferred tax credited to the consolidated statement of comprehensive income during the year (note 12):		
Write-down of inventories to net realisable value	101	–
Accrued expenses	3,916	–
Gross deferred tax assets at 31 December	4,017	–

Management expects it is probable that taxable profit will be available against which the above deducible temporary differences can be utilised in the coming years.

Pursuant to the PRC Tax Law effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by the subsidiary established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2010, no deferred tax liabilities (2009: Nil) have been recognised for the withholding taxes that would be payable on the unremitted earnings by Ausnutria China whose certain interests were directly held by the Company as the directors of the Company represented that there was no plan to distribute the earnings generated after 1 January 2008 in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

20. INVESTMENTS IN SUBSIDIARIES

	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	**171,320**	171,320

The amount of RMB388,467,000 (2009: Nil) due from a subsidiary (note 25) is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered paid-up capital	Percentage of equity interest attributable to the Group Direct	Indirect	Principal activities
Spring Choice	British Virgin Islands 22 April 2009	US$200	100	–	Investment holding
Ausnutria Dairy Co., Ltd.	Hong Kong 25 January 2007	HK$1	–	100	Investment holding
Ausnutria Australia Dairy Pty Ltd.	Australia 7 October 2003	Au$500,000	–	100	Investment holding
Ausnutria China*	PRC 15 September 2003	RMB58,633,832	–	100	Production, marketing and distribution of paediatric products
Ausnutria Dairy (HK) Company Limited	Hong Kong 3 November 2008	HK$100	–	100	Marketing and distribution of paediatric products

* In July 2010, Ausnutria Dairy (Hunan) Company Ltd. changed its name to Ausnutria Dairy (China) Company Ltd.

None of the statutory audited financial statements of the above subsidiaries were audited by Ernst & Young Hong Kong or another member firm of the Ernst & Young global network (2009: None).

21. INVESTMENTS IN ASSOCIATES

	2010 RMB'000	2009 RMB'000
Shares of net assets	2,611	–

Particulars of the associates are as follows:

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered paid-up capital	Percentage of equity interest attributable to the Group Direct	Indirect	Principal activities
Nuochengxinghe (Hunan) Trading Co., Ltd.	PRC 1 September 2010	RMB2,000,000	–	20	Wholesale, and retail of organic paediatric products
Meiyougao (Guangzhou) Trading Co., Ltd.	PRC 8 September 2010	RMB1,000,000	–	20	Wholesale, and retail of organic paediatric products
Fengruida (Guizhou) Trading Co., Ltd.	PRC 28 October 2010	RMB2,000,000	–	20	Wholesale, and retail of organic paediatric products
Meiyougao (Shenyang) Trading Co., Ltd.	PRC 11 November 2010	RMB1,000,000	–	20	Wholesale, and retail of organic paediatric products
Hengai (Chongqing) Trading Co., Ltd.	PRC 1 November 2010	RMB100,000	–	20	Distribution of commodity, clothing and office products
Juyicai (Shi jiazhuang) Trading Co., Ltd.	PRC 15 November 2010	RMB1,000,000	–	41	Wholesale, and retail of packaging food
Nuochengxinghe (Wuhan) Trading Co., Ltd.	PRC 30 November 2010	RMB1,000,000	–	20	Wholesale, and retail of organic paediatric products
Kangyingrui (Yunnan) Trading Co., Ltd.	PRC 1 September 2010	RMB1,000,000	–	20	Wholesale, and retail of packaging food
Ainengda (Yunnan) Trading Co., Ltd.	PRC 28 December 2010	RMB1,000,000	–	28.5	Wholesale, and retail of organic paediatric products
Xiangning (Henan) Trading Co., Ltd.	PRC 12 December 2010	RMB1,000,000	–	20	Wholesale, and retail of organic paediatric products
Maigao (Hangzhou) Trading Co., Ltd.	PRC 17 December 2010	RMB1,000,000	–	20	Wholesale, and retail of organic paediatric products

21. INVESTMENTS IN ASSOCIATES (continued)

None of the statutory audited financial statements of the above associates were audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network (2009: None).

The following table illustrates the summarised financial information of the Group's associates extracted from their unaudited management accounts:

	2010 RMB'000	2009 RMB'000
Share of the associates' assets and liabilities:		
Current assets	3,551	–
Non-current assets	30	–
Current liabilities	(970)	–
Net assets	2,611	–
Share of the associates' revenues and losses:		
Revenues	3,551	–
Losses	(104)	–

22. LONG-TERM PREPAYMENT

	2010 RMB'000	2009 RMB'000
Due from related parties for purchase of property (note 36(b))	23,108	–

23. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	46,555	20,393
Finished goods	26,150	22,016
Others	4,258	2,378
Total	76,963	44,787

24. TRADE AND BILLS RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade receivables	**89,550**	18,047
Bills receivable	**31,413**	–
Total	**120,963**	18,047

The Group normally allows a credit period of not more than 1 year (2009:3 months) to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables of the Group as at the end of the reporting period, based on the invoice date, is as follows:

Group

	2010 RMB'000	2009 RMB'000
Within 3 months	**68,610**	14,902
3 to 6 months	**14,156**	1,066
6 months to1 year	**6,678**	2,079
Over 1 year	**106**	–
Total	**89,550**	18,047

There was no provision for impairment as of 31 December 2010 and 2009. The carrying amounts of the trade and bills receivables approximate to their fair values.

24. TRADE AND BILLS RECEIVABLES (continued)

The ageing analysis of the trade receivables that are not considered to be impaired is as follows:

Group

	2010 RMB'000	2009 RMB'000
Not past due	89,444	14,902
Within 3 months past due	–	1,066
3 months to 1 year past due	106	2,079
Total	89,550	18,047

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there were no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances at this stage because there has not been a significant change in the credit quality of the individual debtors and the balances are considered fully recoverable. The Group did not hold any collateral or other credit enhancements over these balances.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Prepayments to suppliers	75,735	54,004	–	–
Due from related parties (note 36 (b))	403	12,530	195	10,966
Due from subsidiaries	–	–	388,467	–
Others	4,596	2,274	60	–
	80,734	68,808	388,722	10,966

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to entities which have no recent history of default.

26. HELD-TO-MATURITY INVESTMENT

The Group entered into an entrusted fund management agreement on 24 March 2010 with Hunan Trust and Investment Co., Ltd. ("Hunan Trust"), an independent third party, pursuant to which, Ausnutria China entrusted Hunan Trust a fund of RMB200 million to purchase an entrusted loan (the "Entrusted Loan") from Hunan Provincial Expressway Construction and Development Co., Ltd., an independent third party. The Entrusted Loan is unsecured and bears an interest rate of 5% per annum and will mature on 17 March 2011. The Entrusted Loan is classified as a held-to-maturity investment and was measured at amortised cost using the effective interest rate method as at 31 December 2010.

27. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**638,984**	1,465,887	**382,152**	906,905

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB255,446,000 (2009: RMB555,444,000). The RMB is not freely convertible in the international market. However, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to convert RMB into other currencies through banks to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on published daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances approximate their fair values.

28. TRADE PAYABLES

An ageing analysis of the trade payables of the Group as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Within two months	**7,351**	24,768
Over two months	**1,433**	590
	8,784	25,358

Trade payables are interest-free and are normally settled on a 45-day term.

29. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Advances from customers	11,906	22,726	–	–
Deposits	7,055	15,829	–	–
Due to related parties (note 36 (b))	–	85,452	–	85,452
Due to subsidiaries	–	–	32,164	9,579
Accrued salaries and welfare	7,939	4,101	116	134
Other tax payables	19,326	22,843	–	–
Others	13,943	13,669	463	–
	60,169	164,620	32,743	95,165

Other payables are non-interest-bearing and have no fixed terms of repayment.

30. INTEREST-BEARING BANK LOAN

On 31 December 2009, the Group obtained a bank loan of RMB350,000,000 from China Construction Bank. The bank loan bore interest at a monthly rate of 0.4425% and was repaid on 22 January 2010. The bank loan was not secured.

Group

	2010			2009		
	Annual effective interest rate (%)	Maturity	RMB'000	Annual effective interest rate (%)	Maturity	RMB'000
Bank loans – unsecured	–	–	–	5.31	2010	350,000

31. ISSUED CAPITAL

Shares

	2010 RMB'000	2009 RMB'000
Authorised:		
1,500,000,000 (2009: 1,500,000,000) ordinary shares of HK$0.1 each	132,152	132,152
Issued and fully paid		
1,045,000,000 (2009: 1,045,000,000) ordinary shares of HK$0.1 each	92,066	92,066

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 38 of the financial statements.

(i) Share premium

In connection with the Company's IPO and the over-allotment option as defined in the Company's prospectus dated 24 September 2009, 245,000,000 new ordinary shares of the Company of HK$0.1 each were issued at a price of HK$4.00 per share for a total cash consideration, before related issuance expenses, of HK$980,000,000 (equivalent to approximately RMB863,399,000). Share premium represents the excess of the total consideration over the nominal value of shares issued pursuant to the IPO and the over-allotment option after deducting the share issue expenses of RMB40.3 million and the capitalisation issue of RMB70.4 million.

Pursuant to a resolution of the board of directors of the Company passed on 22 April 2010, a proposed 2009 final dividend totalling HK$62,700,000 (equivalent to RMB55,206,000) was distributed from the share premium account of the Company.

Pursuant to a resolution of the board of directors of the Company passed on 28 March 2011, a proposed 2010 final dividend totalling HK$31,350,000 (equivalent to RMB26,675,715) will be distributed from the share premium account of the Company.

(ii) Capital reserves

The contribution from the owners represented the capital injection from All Harmony, Brave Leader and Silver Castle to the Group in July 2009.

The distribution to the owners represented payables to the then equity holders of Ausnutria China, a subsidiary of the Company, to transfer the legal titles of 75% equity interests in Ausnutria China to the Group pursuant to the Reorganisation (the "Transfer"). Since the 75% equity interests in Ausnutria China were ultimately owned by the then shareholders of the Company both before and after the Transfer, the Transfer was accounted for as a distribution to the owners of the Company. The payables were fully settled by the capital injection above-mentioned.

(iii) Statutory Surplus Reserve

According to the PRC Company Law, each of the PRC subsidiaries of the Group is required to transfer 10% of its respective after-tax profits, calculated in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be ultilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of the company, provided that such fund is maintained at a minimum level of 25% of the registered capital.

32. RESERVES (continued)

(b) Company

	Notes	Share premium RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Proposed final dividend RMB'000	Total RMB'000
Balance at 1 January 2009		–	–	–	–	–
Total comprehensive income for the year		–	–	(409)	–	(409)
Acquisition of subsidiaries		–	171,320	–	–	171,320
Capitalisation issue		(70,438)	–	–	–	(70,438)
Issues of shares		841,771	–	–	–	841,771
Share issue expenses	32(a)	(40,284)	–	–	–	(40,284)
Proposed final 2009 dividend	14	(55,206)	–	–	55,206	–
At 31 December 2009		675,843	171,320	(409)	55,206	901,960

	Note	Share premium RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 31 December 2009		675,843	171,320	(409)	55,206	901,960
Total comprehensive income for the year		–	–	(29,369)	–	(29,369)
Final 2009 dividend declared		–	–	–	(55,206)	(55,206)
Proposed final 2010 dividend	14	(26,676)	–	–	26,676	–
At 31 December 2010		649,167	171,320	(29,778)	26,676	817,385

The Company's capital reserve represents the excess of the net asset value of the subsidiaries acquired pursuant to a group Reorganization over the nominal value of the Company's shares issued in exchange therefor.

33. CONTINGENT LIABILITIES

At the end of the reporting period, the Group and the Company did not have any significant contingent liabilities.

34. OPERATING LEASE ARRANGEMENTS

As lessee

At the end of the reporting period, the Group had the following total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2010 RMB'000	2009 RMB'000
Within one year	402	420

As at the end of the reporting period, the Company did not have future minimum lease payments under non-cancellable operating leases.

35. COMMITMENTS

Other than the operating lease commitments disclosed in note 34 above, at the end of the reporting period, neither the Group nor the Company had any significant commitments.

36. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2010 RMB'000	2009 RMB'000
Associates:			
Sales of merchandises	(i)	16,628	–
Fellow subsidiaries:			
Office rental expense to Changsha Xin Da Xin Real Estate Management Co., Ltd. ("Xin Da Xin")	(ii)	402	420
Purchase of property from Xin Da Xin	(iii)	23,108	–
Provision of a guarantee to the Group	(iv)	–	27,328
Sales of merchandise to Xin Da Xin	(v)	34	69
Interest income	(vi)	–	3,286
Provision of a guarantee to the Group	(vi)	–	160,000
Sale of merchandise to Hunan Aubrand Food Co., Ltd. ("Aubrand")	(vii)	–	1,846
Purchase of merchandise from Aubrand	(viii)	1,137	–

36. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes:

(i) The sales to associates were made according to mutually agreed terms.

(ii) The Group rents certain premises of an office building located in Changsha from Xin Da Xin, a fellow subsidiary of the Company. During the year, the rental was determined on mutually agreed terms on an annual basis. In the opinion of the directors, the rental expenses were determined by reference to the prevailing market rental of comparable premises. In December 2010, the rental agreement was terminated.

(iii) In December 2010, the Group signed a property purchase agreement with Xin Da Xin to purchase certain property located in Changsha. The price was set as market value determined by an independent valuer. As of 31 December 2010, Xin Da Xin was in the process of transferring the title of the property to Ausnutria China.

(iv) As at 31 December 2009, the Group was granted a line of credit of RMB27,328,000 by Bank of China. The line of credit was guaranteed by Xin Da Xin.

(v) The sales prices were determined by reference to sales prices to major independent third party customers.

(vi) On 12 March 2009, the Group obtained a bank loan of RMB160,000,000 from China Construction Bank. The bank loan was guaranteed by Xin Da Xin and bore an interest rate of 10.87% per annum. The bank loan was repaid in May 2009 and the guarantee was released accordingly.

In the opinion of the directors of the Company, the bank loan was solely for the purpose of providing finance to Xin Da Xin and therefore the entire interest of RMB3,286,000 from the bank loan was fully charged to Xin Da Xin. The Group provided aggregate finance support of RMB143 million to Xin Da Xin in March 2009 which was fully settled in May 2009.

(vii) The Group sold olive oil of RMB1,846,000 to Aubrand, a fellow subsidiary of the Group, at purchase cost.

(viii) The Group purchased olive oil of RMB1,137,000 from Aubrand, a fellow subsidiary of the Group. The purchase price was based on the mutual agreement between the Group and Aubrand.

36. RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

	Note	2010 RMB'000	2009 RMB'000
Trade receivables:			
Xin Da Xin		1	–
Associates		4,019	–
Prepayments, deposits and other receivables:			
Aubrand		398	1,564
Ausnutria BVI	(i)	–	2,612
Braver Leader	(i)	–	8,354
Long-term prepayment			
Xin Da Xin		23,108	–
Other payables and accruals:			
All Harmony	(i)	–	46,403
Silver Castle	(i)	–	39,049

The balances with related parties are non-interest-bearing and have no fixed terms of repayments.

Note:

(i) These entities are shareholders of the Company and under the control of certain executive directors of the Company.

(c) Compensation of key management personnel of the Group

	2010 RMB'000	2009 RMB'000
Salaries, allowances and benefits in kind	772	536
Retirement benefit contributions	14	5
Total compensation paid to key management personnel	786	541

Further details of directors' emoluments are included in note 10 to the financial statements.

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Group			
	2010		2009	
	Held-to-maturity investments RMB'000	Loan and receivables RMB'000	Held-to-maturity investments RMB'000	Loan and receivables RMB'000
Trade and bills receivables	–	120,963	–	18,047
Financial assets included in prepayments, deposits and other receivables	–	403	–	12,530
Held-to-maturity investment	200,000	–	–	–
Cash and cash equivalents	–	638,984	–	1,465,887
	200,000	760,350	–	1,496,464

Financial liabilities

	2010 Financial liabilities at amortised cost RMB'000	2009 Financial liabilities at amortised cost RMB'000
Trade payables	8,784	25,358
Financial liabilities included in other payables and accruals	20,998	114,950
Interest-bearing bank loan	–	350,000
	29,782	490,308

The carrying amounts of the Group's financial assets and liabilities approximated to their fair values as at 31 December 2010.

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Financial assets

	Company	
	2010	2009
	Loan and receivables	Loan and receivables
	RMB'000	RMB'000
Due from subsidiaries	**388,467**	–
Financial assets included in prepayments, deposits and other receivables	**255**	10,966
Cash and cash equivalents	**382,152**	906,905
	770,874	917,871

Financial liabilities

	2010	2009
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	RMB'000	RMB'000
Due to subsidiaries	**32,164**	9,579
Financial liabilities included in other payables and accruals	**463**	85,452
	32,627	95,031

The carrying amounts of the Company's financial assets and liabilities approximated to their fair values as at 31 December 2010.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise an interest-bearing bank loan, amounts due from/to related parties and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The board of directors reviews and approves policies for managing each of these risks and they are summarised below:

Interest rate risk

The Group did not have any long term debt obligations with floating interest rates as at the end of the reporting period (2009: None). Therefore, the Group considers that the exposure to interest rate risk is insignificant.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank borrowings. The Group's financing activities are managed centrally by maintaining an adequate level of cash and cash equivalents to finance the Group's operations. The Group also ensures the availability of bank credit facilities to address any short term funding requirements.

The Group's cash and bank balances are placed with reputable financial institutions.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2010			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Trade payables	–	7,351	1,433	8,784
Financial liabilities included in other payables and accruals	7,055	13,943	–	20,998
Total	7,055	21,294	1,433	29,782

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	2009			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Bank loans	–	–	350,000	350,000
Trade payables	–	24,768	590	25,358
Financial liabilities included in other payables and accruals	101,281	13,669	–	114,950
Total	101,281	38,437	350,590	490,308

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The carrying amounts of cash and cash equivalents, trade receivables, other receivables and the held-to-maturity investment, represent the Group's maximum exposure to credit risk in relation to the Group's other financial assets. Substantially all of the Group's cash and cash equivalents are held in major financial institutions located in the PRC (including Hong Kong and Macau), which management believes are of high credit quality. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the amount of credit exposure to any single financial institution.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. The Group believes that its customers are reliable and of high credit quality and hence, there's no significant credit risk with these customers. As the Group's exposure spreads over a diversified portfolio of customers, there is no significant concentration of credit risk.

Since the held-to-maturity investment was an entrusted loan made to a creditworthy third party through a large and reputable finance institution, the Group believes that the investment is of high credit quality and there is no significant credit risk associated to the investment. The carrying amount of the investment represents the Group's maximum exposure to credit risk.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

Substantially all of the Group's transactions are denominated in RMB, which is the Group's functional currency. The RMB is not freely convertible into foreign currencies and conversion of the RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The Group's certain bank balances are denominated in HK$, and certain revenue and expenses of subsidiaries of the Group are denominated in HK$.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonable possible change in HK$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in HK$ rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity * RMB'000
2010			
If RMB weakens against HK$	5%	19,091	150
If RMB strengthens against HK$	(5%)	(19,091)	(150)
2009			
If RMB weakens against HK$	5%	45,345	–
If RMB strengthens against HK$	(5%)	(45,345)	–

* Excluding retained earnings

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity plus net debt. Net debt is calculated as the sum of an interest-bearing bank loan, trade payables and other payables and accruals, less cash and bank balances. Total equity represents equity attributable to the owners of the parent. The Group's policy is to maintain the gearing ratio at a reasonable level.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The gearing ratio as at the end of the reporting period is as follows:

	2010 RMB'000	2009 RMB'000
Interest-bearing bank loan	–	350,000
Trade payables	8,784	25,358
Other payables and accruals	60,169	164,620
Less: Cash and cash equivalents	(638,984)	(1,465,887)
Net cash	(570,031)	(925,909)
Equity	1,135,672	1,080,573
Equity and net debt	565,641	154,664
Gearing ratio	N/A	N/A

The net cash balances as at 31 December 2009 and 2010 were mainly due to the IPO proceeds received in October 2009.

39. EVENTS AFTER THE REPORTING PERIOD

On 18 June 2010, an ordinary resolution was passed at the annual general meeting approving a repurchase mandate, whereby the directors of the Company are authorized to repurchase shares up to 104,500,000 shares, which represent 10% of the issued share capital of the Company.

Subsequent to 31 December 2010, the Company has repurchased 57,840,000 shares, at a price per share ranging from HK$2.38 to HK$2.85. As at the reporting date, 4,064,000 shares of repurchased have been cancelled.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2011.

Five Year Published Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
RESULTS					
REVENUE	579,333	623,777	405,166	186,526	93,716
Cost of sales	261,789	(315,530)	(259,163)	(107,729)	(48,443)
Gross profit	317,544	308,247	146,003	78,797	45,273
Other income and gains	21,520	6,898	836	1,045	60
Selling and distribution costs	(174,449)	(91,947)	(56,628)	(43,335)	(21,877)
Administrative expenses	(21,584)	(10,565)	(9,162)	(8,039)	(4,731)
Other expenses	(20,367)	(41)	(695)	(234)	(3,300)
Finance costs	(1,369)	(4,184)	(859)	(493)	(536)
Share of losses of associates	(104)	–	–	–	–
PROFIT BEFORE TAX	121,191	208,408	79,495	27,741	14,889
Tax	(11,024)	(26,288)	(8,966)	(5,368)	(3,036)
PROFIT FOR THE YEAR	110,167	182,120	70,529	22,373	11,853
Other comprehensive income:					
Exchange difference on translating foreign operations	138	(210)	25	(5)	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	110,305	181,910	70,554	22,368	11,853
Attributable to:					
Owners of the parent	110,167	182,120	70,529	22,373	11,853
ASSETS AND LIABILITIES					
TOTAL ASSETS	1,204,625	1,627,102	227,041	116,647	50,257
TOTAL LIABILITIES	(68,953)	(546,529)	(121,493)	(81,653)	(51,029)
	1,135,672	1,080,573	105,548	34,994	(772)

The financial information for each of the three years ended 31 December 2008 has been prepared upon the Reorganisation as if the group structure, at the time when the shares were listed on the Stock Exchange, had been in existence throughout the years concerned.