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**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)

**ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2009**

**Financial Highlights**

The Group's revenue amounted to approximately RMB623,777,000 for the year ended 31 December 2009, representing an increase of approximately RMB218,611,000, or approximately 54% as compared to approximately RMB405,166,000 for the year ended 31 December 2008.

The profit attributable to owners of the parent for the year ended 31 December 2009 was approximately RMB182,120,000, representing an increase of approximately RMB111,591,000, or approximately 158% as compared to approximately RMB70,529,000 for the year ended 31 December 2008.

The earnings per share of the Company attributable to ordinary equity holders of the parent amounted to approximately RMB21.3 cents for the year ended 31 December 2009, as compared to approximately RMB8.8 cents for the year ended 31 December 2008.

The board of directors (the “Board”) of Ausnutria Dairy Corporation Ltd (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2009 together with the comparative figures for the corresponding period in 2008 as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
<b>REVENUE</b>	5	<b>623,777</b>	405,166
Cost of sales		<u>(315,530)</u>	<u>(259,163)</u>
Gross profit		<b>308,247</b>	146,003
Other income and gains	5	<b>6,898</b>	836
Selling and distribution costs		<b>(91,947)</b>	(56,628)
Administrative expenses		<b>(10,565)</b>	(9,162)
Other expenses		<b>(41)</b>	(695)
Finance costs	6	<u><b>(4,184)</b></u>	<u>(859)</u>
<b>PROFIT BEFORE TAX</b>	7	<b>208,408</b>	79,495
Income tax expenses	8	<u><b>(26,288)</b></u>	<u>(8,966)</u>
<b>PROFIT FOR THE YEAR</b>		<b>182,120</b>	70,529
Other comprehensive income:			
Exchange differences on translation of foreign operations		<u><b>(210)</b></u>	<u>25</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<u><b>181,910</b></u>	<u>70,554</u>
Profit attributable to:			
Owners of the parent		<u><b>182,120</b></u>	<u>70,529</u>
Total comprehensive income attributable to:			
Owners of the parent		<u><b>181,910</b></u>	<u>70,554</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic and diluted (RMB)	10	<u><b>21.3 cents</b></u>	<u>8.8 cents</u>

Details of the dividends payable and proposed for the year are disclosed in note 9.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		26,934	26,434
Lease prepayments for land use rights		2,313	2,370
Intangible assets		326	393
Total non-current assets		<u>29,573</u>	<u>29,197</u>
<b>CURRENT ASSETS</b>			
Inventories		44,787	79,965
Trade receivables	11	18,047	6,355
Prepayments, deposits and other receivables		68,808	33,865
Cash and cash equivalents		1,465,887	77,659
Total current assets		<u>1,597,529</u>	<u>197,844</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	12	25,358	14,480
Other payables and accruals		164,620	69,889
Interest-bearing bank loan		350,000	30,000
Tax payable		6,551	7,124
Total current liabilities and total liabilities		<u>546,529</u>	<u>121,493</u>
<b>NET CURRENT ASSETS</b>		<u>1,051,000</u>	<u>76,351</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,080,573</u>	<u>105,548</u>
Net Assets		<u>1,080,573</u>	<u>105,548</u>
<b>EQUITY</b>			
<b>Equity attributable to the owners of the parent and total equity</b>			
Issued capital		92,066	-
Share premium	13	675,843	-
Proposed final dividend	9	55,206	-
Other reserves	13	257,458	105,548
Total equity		<u>1,080,573</u>	<u>105,548</u>

Notes:

## **1. CORPORATE INFORMATION AND THE REORGANISATION**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2009. The authorised share capital of the Company was HK\$150,000,000 divided into 1,500,000,000 shares of HK\$0.1 each. After the reporting period, the registered office of the Company has changed to Room 2101, Beautiful Group Tower, 77 Connaught Road Central, Central, Hong Kong. The ordinary 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.

Pursuant to a group reorganisation (the “Reorganisation”) for the purpose of listing the Company’s ordinary shares on the Stock Exchange, on 15 September 2009, the Company acquired the entire issued share capital of Spring Choice Limited (“Spring Choice”), a company incorporated in the British Virgin Islands, which is the holding company of the other subsidiaries comprising the Group, and thereby became the holding company of the Group effective from 15 September 2009. Further details of the Reorganisation are set out in the Company’s prospectus dated 24 September 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. 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 (“IASB”), and the disclosure requirements of the Rules Governing the Listing of the Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the 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*

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 2009. Except for the reorganisation completed on 15 September 2009 as set out in the Company’s prospectus dated 24 September 2009, which has been accounted for as a reorganisation under common control in a manner similar to a pooling-of-interest, the purchase method of accounting is used to account for the acquisition of subsidiaries of the Group. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

### 3. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group had early adopted all applicable new and revised IFRSs which are effective for accounting periods on or after 1 January 2009 since 1 January 2006, the earliest date of the track record period for the preparation of the accountants' report for the purpose of listing of the Company's ordinary shares on the Stock Exchange. The Group did not early adopt any issued but not yet effective IFRSs during the year.

### 4. SEGMENT INFORMATION

For management purpose, the Group has a single operating and reportable segment- 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. 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 (2008: 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:

	2009 RMB'000	2008 RMB'000
<b>Revenue</b>		
Sale of goods	<u>623,777</u>	<u>405,166</u>
<b>Other income and gains</b>		
Interest income	4,194	836
Others	<u>2,704</u>	<u>-</u>
Total other income and gains	<u>6,898</u>	<u>836</u>

### 6. FINANCE COSTS

	2009 RMB'000	2008 RMB'000
Interest on a bank loan wholly repayable within five years	<u>4,184</u>	<u>859</u>

## 7. PROFIT BEFORE TAX

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

	<b>2009</b>	2008
	<b>RMB'000</b>	RMB'000
Cost of inventories sold	<b>315,530</b>	259,163
Depreciation	<b>2,254</b>	2,089
Amortisation of lease prepayments for land use rights	<b>57</b>	57
Amortisation of intangible assets*	<b>67</b>	67
Minimum lease payments under operating leases:		
Land and buildings	<b>420</b>	420
Loss on disposal of property, plant and equipment	<b>23</b>	-
Auditors' remuneration	<b>900</b>	-
Advertising and promotion expenses	<b>65,908</b>	41,027
Employee benefit expenses (including directors' emoluments):		
Wages, salaries and staff welfare	<b>13,306</b>	9,966
Retirement benefit contributions	<b>923</b>	784
	<b>14,229</b>	10,750

\* The amortisation of intangible assets is included in "administrative expenses" on the face of the consolidated statement of comprehensive income.

## 8. 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 (Hunan) Company Ltd\* (澳優乳品(湖南)有限公司) ("Ausnutria Hunan"), is subject to enterprise income tax ("EIT") at the statutory tax rate of 25% (2008: 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 the operation period over ten 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 Hunan 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 Hunan was revised to the year ended 31 December 2006 and therefore, Ausnutria Hunan 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 ending 31 December 2010. Meanwhile, Ausnutria Hunan was also granted a local income tax benefit by local tax authority, whereby Ausnutria Hunan was refunded RMB1,157,000 in 2008 for part of its local income tax paid in 2006 and 2007.

## 8. INCOME TAX (continued)

	2009 RMB'000	2008 RMB'000
Current - Hong Kong	424	-
Current - PRC	<u>25,864</u>	<u>8,966</u>
Current income tax	<u>26,288</u>	<u>8,966</u>

## 9. DIVIDENDS

On 15 August 2009, a special dividend of totalling RMB30,000,000 was declared by the Group to its then shareholders. The dividend was fully settled in October 2009.

	2009 RMB'000	2008 RMB'000
Proposed final - HK\$ 6 cents per ordinary share	<u>55,206</u>	<u>-</u>

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

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

The calculation of the basic earnings per share amounts 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 856,191,781 (2008: 800,000,000) in issue during the year, as adjusted to reflect the issue of 245,000,000 new shares during the year.

### Earnings

	2009 RMB'000	2008 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>182,120</u>	<u>70,529</u>

### Shares

	2009	2008
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>856,191,781</u>	<u>800,000,000</u>

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

## 11. TRADE RECEIVABLES

The Group normally allows a credit period of not more than 90 days 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 aged analysis of the trade receivables of the Group as at the end of the reporting period, based on the invoice date is as follows:

	<b>2009</b> <b>RMB'000</b>	2008 RMB'000
Within 3 months	<b>14,902</b>	6,267
3 to 6 months	<b>1,066</b>	-
Over 6 months	<b>2,079</b>	88
	<b>18,047</b>	6,355
Less: impairment	<b>-</b>	-
Total	<b>18,047</b>	6,355

The carrying amounts of the trade receivables approximate to their fair values.

## 12. TRADE PAYABLES

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

	<b>2009</b> <b>RMB'000</b>	2008 RMB'000
Within two months	<b>24,768</b>	14,463
Over two months	<b>590</b>	17
	<b>25,358</b>	14,480

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

### 13. RESERVES

	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2008	-	23,406	1,502	(5)	10,091	-	34,994
Total comprehensive income for the year	-	-	-	25	70,529	-	70,554
Transfer to statutory surplus reserves	-	-	7,053	-	(7,053)	-	-
At 31 December 2008 and 1 January 2009	-	23,406*	8,555*	20*	73,567*	-	105,548
Total comprehensive income for the year	-	-	-	(210)	182,120	-	181,910
Capitalisation issue	(70,438)	-	-	-	-	-	(70,438)
Issue of shares	841,771	-	-	-	-	-	841,771
Share issue expenses	(40,284)	-	-	-	-	-	(40,284)
Special dividend declared and paid	-	-	-	-	(30,000)	-	(30,000)
Proposed final 2009 dividend	(55,206)	-	-	-	-	55,206	-
Transfer to statutory surplus reserves	-	-	18,043	-	(18,043)	-	-
<b>At 31 December 2009</b>	<b>675,843</b>	<b>23,406*</b>	<b>26,598*</b>	<b>(190)*</b>	<b>207,644*</b>	<b>55,206</b>	<b>988,507</b>

\* These reserve accounts comprise the consolidated reserves of RMB257,458 (2008:RMB105,548) in the consolidated balance sheet.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group has entered into a five-year supply agreement with Tatura Milk Industries Limited (“Tatura”) in 2009 to secure the long term supply of milk powder for producing its products and help to ensure a stable supply of high quality milk powder sufficient to enable us to meet our current and future production and sale needs. The Group can also purchase milk powder produced by Murray Goulburn Co-operative Co. Limited (“Murray Goulburn”), a leading company in Australian dairy industry and a major Australian manufacturer of dairy products, to completely satisfy its additional supply requirements. The Group imports all of its milk powder from Australia through trading companies in the PRC which act as its procurement and custom agents.

The Group’s wholesale distribution and sale of paediatric milk formula products to distributors are through an extensive distribution network across 20 provinces, 4 autonomous regions and 4 municipalities in the PRC. These distributors further distribute and sell our products to retail outlets such as department stores, supermarkets and babies and parenting specialty stores throughout the PRC. The Group has also appointed an agent to distribute our products online via a website operated by an independent online shopping service provider. The Group has appointed a distributor in Hong Kong to further expand its distribution network.

The Group’s sales increased further over the years and the sales for the year ended 31 December 2009 has increased by approximately 54% as compared with the last financial year with an increase in the overall profit margin. The Group now has three different product series of paediatric milk formula and other paediatric nutritional supplements. The three major products are A-choice Series, Best-choice Series and Allnutria Series which are designed to target consumers of high-priced and/or premium-priced products.

Details of the Group’s products and analysis of their performances during the year are set out below:

#### ***A-choice Series***

The A-choice Series is divided into three stages for infants/toddlers of different ages and are suitable for new born infants up to 12 months of age; for infants and toddlers aged from 6 months to 18 months and for toddlers aged from 12 months to 3 years. The formula for the A-choice Series products contains a combination of probiotics which enhances the development of healthy bacteria and encourages nutritional absorption as well as ingredients which are known to assist the infant/toddler’s neurological development. 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 1.6% over the last year and constituted 9.7% (2008: 14.6%) of the Group’s total turnover. However, because of the market position of this product series, the constitution in the Group’s total revenue has further decreased over the years.

#### ***Best-choice Series***

The Best-choice Series is divided into three stages for infants/toddlers of different ages and are suitable for new born infants up to 12 months of age; for infants/toddlers aged from 6 months to 18 months and for toddlers aged from 12 months to 3 years. The Best-choice Series formula includes ingredients which are known to strengthen the infant/toddler’s immune system and assists in the infant/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 used to be the Group’s top selling series in the past, the sales during the year have increased by approximately 46.3% over the last year and constituted 40.8% (2008: 42.9%) of the Group’s total revenue. Due to the satisfactory sales performance of another series, Allnutria Series, as set out below, as such, the constitution of this series in the Group’s total revenue has slightly dropped during the year.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW (continued)

#### *Allnutria Series*

The Allnutria Series, which was jointly developed by the Group and Tatura, is divided into four stages for infants/toddlers of different ages and suitable 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.

As the formula of the Allnutria Series is most similar to natural mother's breast milk that are known to strengthen the infant/toddler's immune system as well as to enhance the infant/toddler's intestinal system, it is well accepted by the market with considerable sales growth increased over the years and becomes the top selling product series of the Group during the year. Sales of this series during the year have increased by approximately 85.2% over the last year and constituted a sharp increase to 47.8% (2008: 39.8%) of the Group's total revenue.

#### *Other Products*

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

As these products are supporting to the Group's series products, sales revenue has been comparatively lower than other series and decreased by approximately 1.5% during the year with constitution of 1.7% (2008: 2.7%) of the Group's total revenue.

#### *Branding and Marketing*

The Group's trademark has just been accredited as a famous trademark in early 2010 by the Trademark Office of the State Administration for Industry & Commerce in its trademark management. The Group considers that it is a result of adopting an innovative and special business strategy and the development of an efficient business model for marketing, distribution and customer services, and also believes that its brand recognition and reputation have been instrumental to the success and growth of its business.

The Group sells all of its products to consumers through distributors. The Group sells its products to more than 70 direct distributors and increase consumer awareness of its brand and products through television advertising and other media with marketing campaigns. The Group's marketing team also conducts telemarketing strategies to advertise our products and make promotional offers to reach a wider audience. In addition to our marketing activities, our distributors are responsible for regional marketing efforts, including advertising in retail outlets and arranging paediatric nutrition education seminars.

## FINANCIAL REVIEW

The Group recorded a total revenue for the year ended 31 December 2009 amounting to approximately RMB623,777,000 (2008: RMB405,166,000), a rise of approximately 54% as compared with the previous year. The audited profit attributable to owners of the parent was approximately RMB182,120,000 (2008: RMB70,529,000) and the basic earnings per share was RMB21.3 cents (2008: RMB8.8 cents), representing sharp increases of approximately 158% over last year. The directors recommend the payment of a final dividend of HK\$6 cents per ordinary share for the year ended 31 December 2009 (2008: nil).

During the year under review, the Group's gross profit margin increased from 36% in last year to approximately 49% because of the decrease in milk powder costs and the increase in portion of sales of the higher profit margin Allnutria Series.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW (continued)**

During the year ended 31 December 2009, other income and gains increased significantly to approximately RMB6,062,000 as there were interest income of approximately RMB3,286,000 received for bank loan interest charged to a related company and sundry income of approximately RMB2,704,000. The selling and distribution costs accounted for 14.7% (2008:14.0%) of the revenue and raised by approximately 62% over last year because of increases in advertising and marketing for sales and promotion of the Group's products and brand. The administrative expenses accounted for approximately 1.7% (2008:2.3%) of the revenue and increased by approximately 15% over last year due to increase in staff to cope with business development and salary increments adjusted in accordance with market level. Finance costs increased by approximately RMB3,325,000 as a result of interest paid for a bank loan borrowed for the purpose of providing finance to a related company. The tax expenses increased from RMB8,966,000 in last year to approximately RMB26,288,000 was mainly due to the substantial increase of profit for the year and a tax refund of approximately RMB1,157,000 to Ausnutria Hunan accounted for in 2008 in respect of the prior years.

The Company's shares were successfully listed in Hong Kong on 8 October 2009 and net proceeds of approximately RMB823,115,000 were generated from the global offering. Besides providing the Group with sufficient cash flow, these proceeds also significantly help improving the Group's gearing ratio and current ratio.

### **MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES**

During the year, except for the Group's reorganisation for the preparation of listing as set out in the accountants' report in Appendix I to the prospectus (the "Prospectus") issued on 24 September 2009, 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. At the date of this announcement, we have not entered into any legally binding agreement or arrangement with respect to the upward integration opportunities mentioned above. However, the Group has identified an investment opportunity and is currently in discussions with an overseas entity about our potential investment in its milk powder production operations and will publicly announce as and when appropriate.

### **FINANCIAL RESOURCES, LIQUIDITY AND PLEDGE OF ASSETS**

As at 31 December 2009, net assets of the Group amounted to approximately RMB1,080,573,000 (2008: RMB105,548,000); current assets amounted to approximately RMB1,597,529,000 (2008: RMB197,844,000), of which approximately RMB1,465,887,000 (2008: RMB77,659,000) were cash and bank deposits.

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

As at 31 December 2009, except for the Group's building with a net book value of RMB16,048,000 (2008: RMB16,617,000) and lease payments for land use rights of RMB2,370,000 (2008: RMB2,427,000) which were pledged to secure a revolving credit up to RMB30,000,000, the Group did not pledge any of its assets to any third parties (2008: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### CAPITAL STRUCTURE

The Company's capital structure only comprises of ordinary shares. The movements in the Company's capital structure are set out as below:

#### *Authorised share capital*

- (a) The Company was incorporated in the Cayman Islands on 8 June 2009, with an authorised share capital of HK\$380,000 divided into 3,800,000 ordinary shares of HK\$0.1 each.
- (b) Pursuant to written resolution of the shareholders of the Company passed on 15 September 2009, the authorised share capital of the Company was increased from HK\$380,000 to HK\$150,000,000 by the creation of 1,496,200,000 additional ordinary shares of HK\$0.1 each.

#### *Issued share capital*

- (a) The Company was incorporated in the Cayman Islands on 8 June 2009, with authorised share capital of HK\$380,000 divided into 3,800,000 ordinary shares of HK\$0.1 each, with one ordinary share issued and allotted to Codan Trust Company (Cayman) Limited. On the same day, the one ordinary share was transferred to Brave Leader Limited ("Brave Leader"). On 17 June 2009, a total of 99 ordinary shares of the Company were allotted and issued for cash at par as to 16 ordinary shares to All Harmony International Limited ("All Harmony"), 49 ordinary shares to Brave Leader, 9 ordinary shares to Silver Castle International Limited ("Silver Castle") and 25 ordinary shares to Ausnutria Holding Co Ltd ("Ausnutria BVI").
- (b) On 15 September 2009, All Harmony, Brave Leader, Silver Castle and Ausnutria BVI transferred their respective shareholdings in Spring Choice (which constituted the entire issued share capital of Spring Choice) to the Company in return for the allotment and issue of 144 shares, 450 shares, 81 shares, and 225 shares of the Company, credited as fully paid.
- (c) Pursuant to a resolution passed on 19 September 2009, a total of 799,999,000 new ordinary shares of the Company of HK\$0.1 each were further allotted and issued, credited as fully paid at par by the Company, by way of capitalisation of the sum of HK\$79,999,000 (equivalent to approximately RMB70,438,000) from the share premium account, to the then existing shareholders of the Company, whose names appeared on the register of the Company on 23 September 2009, in proportion to their respective shareholdings. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new ordinary shares to the public in connection with the Company's initial public offering ("IPO").
- (d) In connection with the Company's IPO and the over-allotment option as defined in the Prospectus, 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).

### GEARING RATIO

As at 31 December 2009, the Group's current liabilities amounted to approximately RMB546,529,000 (2008: RMB121,493,000). The net assets value per share of the Group was approximately RMB1.03 as at 31 December 2009. The Group's current ratio was approximately 2.92 (2008: 1.63) and the gearing ratio was approximately negative 599% which was mainly due to the IPO proceeds received in October 2009 (2008: positive 26%). As at 31 December 2009, the Group had a bank loan amounted to RMB350,000,000 and was repaid on 22 January 2010 (2008: RMB30,000,000).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **INTEREST AND FOREIGN EXCHANGE RISK**

During the reporting period, the Group did not have debt obligations with floating interest rates (2008: nil). Accordingly, the Group had no significant interest rate risk.

Substantially all of the Group's businesses are denominated in RMB, which is the Group's functional currency. At the reporting date, the Group had bank balances of RMB910,443,000 denominated in HK\$. The fluctuations in foreign exchange rate between RMB and HK\$ may have material impact 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 2009, the Group had no capital commitments (2008: nil).

### **CONTINGENT LIABILITIES**

As at 31 December 2009, the Group had no significant contingent liabilities (2008: nil).

### **USE OF PROCEEDS**

As at 31 December 2009, the net proceeds of the fund raising by the Company in the global offering amounted to approximately RMB823,115,000 were totally placed with reputable financial institutions for interest income.

The Group intends to use these net proceeds for the following purposes:

- a) to explore and undertake potential investment opportunities for investing in or acquiring upstream milk powder related assets and/or operations;
- b) to expand our distribution network and strengthen our brand building, marketing and promotional initiatives;
- c) for enhancing our research and development efforts;
- d) for complementing our efforts in introducing our new series of organic paediatric nutrition products and new products, and further expanding the range and quality of this series of products;

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **USE OF PROCEEDS (continued)**

- e) to establish two new production lines for the production of our paediatric milk formula products and to construct a new storage warehouse; and
- f) for general working capital purposes.

The Group will apply its funds in accordance with the use of proceeds as stated in the Prospectus.

### **EMPLOYEES**

As at 31 December 2009, the Group employed approximately 307 (2008: 185) 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 employee expenses of the Group including directors' remuneration charged to the consolidated statement of comprehensive income for the year ended 31 December 2009 amounted to approximately RMB14,229,000 (2008: RMB10,750,000). The increase in total employee expenses was due to the increase in employees and salary increments adjusted in accordance with labour market trend.

### **PROSPECTS**

In September 2008, the paediatric milk formula of a number of large domestic dairy products manufacturers were found to contain melamine. Following this incident, the PRC government has introduced a number of regulations and measures which are 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.

The Group will continue to launch new products which include organic products and products of brand new formula. In early 2010, selling prices of products within the industry have been increased and accordingly, the Group has raised the selling prices of its products to offset the consequences brought by the increased in the cost of the raw materials, this would be a good support to the results of the Group for the coming year. In addition, the Group will continuously strengthen its distribution network, enhancing the placement of media advertising throughout the country and actively seeking 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.

## **DIVIDEND**

The directors recommend the payment of a final dividend of HK\$6 cents per ordinary share in respect of the year. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting and payable on or before 31 July 2010 to shareholders whose names appear on the register of members of the Company at the close of business on 18 June 2010.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 15 June 2010 to 18 June 2010 (both dates inclusive) during which period no transfer of shares will be registered. To be qualified to attend the annual general meeting of the Company and/or the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, 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 14 June 2010.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## **COMPLIANCE OF MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")**

The Company has adopted 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.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

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

## **AUDIT COMMITTEE**

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 3 independent non-executive directors, Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong (Chairman). The Company's and the Group's financial statements for the year ended 31 December 2009 have been reviewed by the audit committee.

## **PUBLICATION OF ANNUAL REPORT**

The 2009 Annual Report of the Company, which contains the detailed results and other information of the Company required pursuant to Appendix 16 to the Listing Rules, will be dispatched to shareholders of the Company and published on the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company's website at [www.ausnutria.com.hk](http://www.ausnutria.com.hk) in due course. This announcement can also be accessed on the above websites.

By order of the Board  
**Ausnutria Dairy Corporation Ltd**  
**Wu Yueshi**  
*Chairman*

Changsha City, China, 22 April 2010

*As at the date of this announcement, the Board comprises of four executive Directors, namely Mr. Wu Yueshi, Mr. Yan Weibin, Mr. Chen Yuanrong and Ms. Ng Siu Hung and three independent non-executive Directors, namely Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong.*

*\*For identification purpose only.*