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 2010

Financial Highlights

The Group's revenue amounted to approximately RMB579,333,000 for the year ended 31 December 2010, representing a decrease of approximately RMB44,444,000, or approximately 7.1% as compared to approximately RMB623,777,000 for the year ended 31 December 2009.

The profit attributable to owners of the parent for the year ended 31 December 2010 was approximately RMB110,167,000, representing a decrease of approximately RMB71,953,000, or approximately 39.5% as compared to approximately RMB182,120,000 for the year ended 31 December 2009.

The earnings per share of the Company attributable to ordinary equity holders of the parent amounted to approximately RMB10.5 cents for the year ended 31 December 2010, as compared to approximately RMB21.3 cents for the year ended 31 December 2009.

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 2010 together with the comparative figures for the corresponding year in 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2010

	Notes	**2010**	2009
		RMB'000	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		**(20,367)**	(41)
Finance costs	6	**(1,369)**	(4,184)
Share of losses of associates		**(104)**	–
PROFIT BEFORE TAX	7	**121,191**	208,408
Income tax expense	8	**(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		**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 and diluted (RMB)	10	**10.5 cents**	21.3 cents

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**38,161**	26,934
Lease prepayments for land use rights		**2,256**	2,313
Intangible assets		**1,855**	326
Deferred tax assets		**4,017**	–
Investments in associates		**2,611**	–
Long-term prepayments		**23,108**	–
Total non-current assets		**72,008**	29,573
CURRENT ASSETS			
Inventories		**76,963**	44,787
Trade and bills receivables	11	**120,963**	18,047
Prepayments, deposits and other receivables		**80,734**	68,808
Held-to-maturity investments		**200,000**	–
Tax recoverable		**14,973**	–
Cash and cash equivalents		**638,984**	1,465,887
Total current assets		**1,132,617**	1,597,529
CURRENT LIABILITIES			
Trade payables	12	**8,784**	25,358
Other payables and accruals		**60,169**	164,620
Interest-bearing bank loans		–	350,000
Tax payable		–	6,551
Total current liabilities and total 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 and total equity			
Issued capital	13	**92,066**	92,066
Share premium	14	**649,167**	675,843
Proposed final dividend	9	**26,676**	55,206
Other reserves	14	**367,763**	257,458
Total equity		**1,135,672**	1,080,573

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. The registered office of the Company was originally located at Room 305, 3rd Floor, Arion Commercial Centre, 2-12 Queen's Road West, Hong Kong. The registered office of the Company was subsequently changed to Room 2101, Beautiful Group Tower, 77 Connaught Road Central, Central, Hong Kong in January 2010. 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.

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 (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.

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.

3. 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 current period: 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.

4. SEGMENT INFORMATION

For management purposes, 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. 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. FINANCE COSTS

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

7. PROFIT BEFORE TAX

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

	2010 RMB'000	2009 RMB'000
Cost of inventories sold	**261,789**	315,530
Depreciation	**2,979**	2,254
Amortisation of lease prepayments for land use rights	**57**	57
Amortisation of intangible assets	**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	**4,956**	–
Auditors' remuneration	**1,350**	900
Advertising and promotion expenses	**134,514**	65,908
Employee benefit expenses (including directors' emoluments):		
Wages, salaries and staff welfare	**29,784**	13,306
Retirement benefit contributions	**1,349**	923
	31,133	14,229
Foreign exchange difference, net	**15,355**	18

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

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		**PRC**		**Total**	
	RMB'000	%	**RMB'000**	%	**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

9. 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.

10. 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.

11. TRADE AND BILLS RECEIVABLES

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 and bills receivables 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 3 months	**92,389**	14,902
3 to 6 months	**18,290**	1,066
6 months to1 year	**10,178**	2,079
Over 1 year	**106**	–
	120,963	18,047
Less: Impairment	**–**	–
Total	**120,963**	18,047

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

The details of trade and bills receivable are as follows:

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

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

Group

	2010	2009
	RMB'000	RMB'000
Not past due	**120,857**	14,902
Within 3 months past due	**–**	1,066
3 months to 1 year past due	**106**	2,079
Total	**120,963**	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.

12. 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.

13. ISSUED CAPITAL

Shares

	2010	2009
	RMB'000	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

14. RESERVES

(a) Group

(i) Share premium

In connection with the Company's initial public offering ("IPO") and the over-allotment option as defined in the prospectus of the Company 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 reorganisation 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 of 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 of 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 International Limited, Brave Leader Limited and Silver Castle International Limited 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 utilised, 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 afterward.

(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		(40,284)	–	–	–	(40,284)
Proposed final 2009 dividend	9	(55,206)	–	–	55,206	–
At 31 December 2009		675,843	171,320	(409)	55,206	901,960
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	9	(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 reorganisation over the nominal value of the Company's shares issued in exchange therefor.

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 39.2% to RMB110,167,000 (2009: RMB181,120,000) 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**	298,165	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. Up to 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.

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 now has 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 on 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.

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 plans 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 announcement, the Group had 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 discussion with an overseas organisation about its potential investment in its milk powder production operations and will publicly announce 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.

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), 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 89.73% 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 announcement, the Group had 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 discussion with an overseas organisation about its 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 2010, the net assets of the Group amounted to approximately RMB1,135,672,000 (2009: RMB1,080,573,000) and the 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 13 to the financial statements in this announcement. 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 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.

DIVIDEND

The Directors recommend the payment of a final dividend of HK$3 cents per ordinary share (2009: HK$6 cents) 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 2011 to shareholders whose names appear on the register of members of the Company at the close of business on 10 May 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company 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 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 10 May 2011.

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.

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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the year of 2010.

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.

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 the 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.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2010, 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 and the Company's website at 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, 28 March 2011

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.