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)

ANNOUNCEMENT OF INTERIM RESULT FOR THE SIX MONTHS ENDED 30 JUNE 2010

The board (the "Board") of directors (the "Directors") of Ausnutria Dairy Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is pleased to announce the unaudited financial results of the Group for the six months ended 30 June 2010 together with comparative figures for the corresponding period in 2009.

The interim financial results are unaudited but have been reviewed by the Company's independent auditor, Ernst & Young, and the Audit Committee.

FINANCIAL HIGHLIGHTS

The Group's revenue amounted to approximately RMB294,550,000 for the six months ended 30 June 2010, representing a decrease of approximately RMB26,422,000, or approximately 8.23% as compared to approximately RMB320,972,000 for the six months ended 30 June 2009.

The profit attributable to owners of the parent for the six months ended 30 June 2010 was approximately RMB59,650,000, representing a decrease of approximately RMB5,511,000, or approximately 8.46% as compared to approximately RMB65,161,000 for the six months ended 30 June 2009.

The earnings per share of the Company attributable to ordinary equity holders of the parent amounted to approximately RMB5.71 cents for the six months ended 30 June 2010, as compared to approximately RMB8.15 cents for the six months ended 30 June 2009.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Notes	For the six months ended 30 June 2010 RMB'000 (Unaudited)	2009 RMB'000 (Audited)
REVENUE	3	**294,550**	320,972
Cost of sales		**(140,567)**	(184,711)
Gross profit		**153,983**	136,261
Other income and gains	3	**7,388**	4,547
Selling and distribution costs		**(75,381)**	(44,717)
Administrative expenses		**(11,430)**	(4,720)
Other expenses		**(8,919)**	(121)
Finance costs	4	**(1,371)**	(4,181)
Profit before tax	5	**64,270**	87,069
Income tax expense	6	**(4,620)**	(21,908)
PROFIT FOR THE PERIOD		**59,650**	65,161
OTHER COMPREHENSIVE INCOME:			
Exchange difference on translating foreign operations		**170**	(10)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**59,820**	65,151
Profit attributable to:			
Owners of the parent		**59,650**	65,161
Total comprehensive income attributable to:			
Owners of the parent		**59,820**	65,151
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– basic and diluted (RMB)	8	**5.71 cents**	8.15 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2010

	Notes	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**30,227**	26,934
Lease prepayments for land use rights	10	**2,285**	2,313
Intangible assets		**1,091**	326
Deferred tax assets		**1,078**	–
Total non-current assets		**34,681**	29,573
CURRENT ASSETS			
Inventories	11	**72,337**	44,787
Trade receivables	12	**104,484**	18,047
Prepayments, deposits and other receivables	13	**137,188**	68,808
Other financial asset	14	**200,000**	–
Cash and cash equivalents	15	**665,264**	1,465,887
Total current assets		**1,179,273**	1,597,529
CURRENT LIABILITIES			
Trade payables	16	**24,487**	25,358
Other payables and accruals	17	**48,149**	164,620
Dividend payable	18	**54,699**	–
Interest-bearing bank loan	19	**–**	350,000
Tax payable		**420**	6,551
Total current liabilities		**127,755**	546,529
NET CURRENT ASSETS		**1,051,518**	1,051,000
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,086,199**	1,080,573
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**1,012**	–
Total non-current liabilities		**1,012**	–
NET ASSETS		**1,085,187**	1,080,573
EQUITY			
Equity attributable to the owners of the parent and total equity			
Issued capital	20	**92,066**	92,066
Share premium		**675,843**	675,843
Proposed final dividend		**–**	55,206
Other reserves		**317,278**	257,458
Total equity		**1,085,187**	1,080,573

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

		Attributable to owners of the parent							
		Issued capital	Share premium	Capital reserves*	Statutory surplus reserve*	Exchange fluctuation reserve*	Retained earnings*	Proposed final dividend	Total equity
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2010 (Unaudited)									
At 1 January 2010		92,066	675,843	23,406	26,598	(190)	207,644	55,206	1,080,573
Total comprehensive income for the period		–	–	–	–	170	59,650	–	59,820
2009 dividend declared	*13*	–	–	–	–	–	–	(55,206)	(55,206)
At 30 June 2010		92,066	675,843	23,406	26,598	(20)	267,294	–	1,085,187
Six months ended 30 June 2009 (Audited)									
At 1 January 2009		–	–	23,406	8,555	20	73,567	–	105,548
Total comprehensive income for the period		–	–	–	–	(10)	65,161	–	65,151
Distribution to the owners		–	–	(102,479)	–	–	–	–	(102,479)
At 30 June 2009		–	–	(79,073)	8,555	10	138,728	–	68,220

* *These components of equity comprise the other reserves of RMB317,278,000 (31 December 2009: RMB257,458,000) in the consolidated statement of financial position.*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2010

	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	**(124,382)**	75,297
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	**(239,080)**	16,151
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	**(436,823)**	(30,254)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(800,285)**	61,194
Cash and cash equivalents at beginning of period	**1,465,887**	77,659
Effect of foreign exchange rate changes, net	**(338)**	(10)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**665,264**	138,843
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	**665,264**	138,843

1. CORPORATE INFORMATION

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 located at Room 305, 3rd Floor, Arion Commercial Centre, 2-12 Queen's Road West, Hong Kong. The registered office of the Company 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").

2.1 BASIS OF PREPARATION

The unaudited interim condensed consolidated statements of financial position of the Group as at 30 June 2010 and the related unaudited interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months then ended and explanatory notes (collectively referred to as the "Interim Condensed Consolidated Financial Statements") have been prepared in accordance with IAS 34 "Interim Financial Reporting" issued by IASB.

The unaudited Interim Condensed Consolidated Financial Statements do not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2009. The unaudited Interim Condensed Consolidated Financial Statements are presented in Renminbi ("RMB") and all values are rounded to nearest thousand (RMB'000), except when otherwise indicated.

The accounting policies adopted in the preparation of the unaudited Interim Condensed Consolidated Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except for the adoption of new and revised International Financial Reporting Standards ("IFRSs"), as set out in note 2.2 to the unaudited Interim Condensed Consolidated Financial Statements below.

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 six months ended 30 June 2010.

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*
Amendments to IFRS 5 included in *Improvements to IFRSs* issued in May 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*

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 38, IFRIC-Int 9, IFRIC-Int 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 Interim Condensed Consolidated Financial Statements and there have been no significant changes to the accounting policies applied in the Interim Condensed Consolidated Financial Statements.

3. 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:

		Six months ended 30 June	
	Note	**2010**	2009
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
Revenue			
Sale of goods		**294,550**	320,972
Other income and gains			
Interest income		**1,416**	4,054
Investment income from an other financial asset		**2,472**	–
Government grants	*(i)*	**3,500**	200
Others		**–**	293
Total other income and gains		**7,388**	4,547

(i) There were no unfulfilled conditions or contingencies attaching to these grants.

4. FINANCE COSTS

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Interest on a bank loan wholly repayable within five years	**1,371**	4,184

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Cost of inventories sold	**140,567**	184,711
Depreciation	**1,381**	1,239
Amortisation of lease prepayments for land use rights	**28**	28
Amortisation of intangible assets*	**82**	34
Minimum lease payments under operating leases:		
Land and buildings	**210**	210
Loss on disposal of property, plant and equipment	**–**	16
Auditors' remuneration	**400**	–
Advertising and promotion expenses	**59,867**	33,330
Employee benefit expenses (including directors' emoluments):		
Wages, salaries and staff welfare	**11,109**	5,953
Retirement benefit contributions	**490**	420
	11,599	6,373

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

6. 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) Co., Ltd. ("Ausnutria Hunan"), is subject to enterprise income tax ("EIT") at the statutory tax rate of 25% (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 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 April 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.

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current – PRC	**4,686**	21,908
Deferred tax	**(66)**	–
Total tax charge for the period	**4,620**	21,908

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:

30 June 2010 (Unaudited)

	Hong Kong		**Mainland China**		**Total**	
	RMB'000	***%***	***RMB'000***	***%***	***RMB'000***	***%***
Profit/(loss) before tax	**(3,421)**		**67,691**		**64,270**	
Income tax at the statutory income tax rate	**(564)**	**16.5**	**16,923**	**25.0**	**16,359**	**25.5**
Tax effects on preferential tax rates	**–**	**–**	**(8,461)**	**(12.5)**	**(8,461)**	**(13.2)**
Tax refunds	**–**	**–**	**(5,692)**	**(8.4)**	**(5,692)**	**(8.9)**
Expenses not deductible for tax purpose	**–**	**–**	**837**	**1.2**	**837**	**1.3**
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	**–**	**–**	**1,013**	**1.5**	**1,013**	**1.6**
Tax losses not recognised	**564**	**(16.5)**	**–**	**–**	**564**	**0.9**
Tax charged at the Group's effective rate	**–**	**–**	**4,620**	**6.8**	**4,620**	**7.2**

Group – 30 June 2009 (Audited)

	Hong Kong		Mainland China		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit before tax	–		87,069		87,069	
Income tax at the statutory income tax rate	–	–	21,767	25.0	21,767	25.0
Expenses not deductible for tax	–	–	141	0.2	141	0.2
Tax charged at the Group's effective rate	–	–	21,908	25.2	21,908	25.2

7. INTERIM DIVIDENDS

The board of the Company did not recommend the payment of any interim dividend for the six months ended 30 June 2010 (the six months ended 30 June 2009: nil).

8. 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 period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,045,000,000 (For the six months ended 30 June 2009: 800,000,000) in issue during the period.

Earnings

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**59,650**	65,161

Shares

	Six months ended 30 June	
	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**	800,000,000

Diluted earnings per share amount is equal to basic earnings per share amount for the six months ended 30 June 2010 and 2009 as there were no diluting events in existence during the relevant periods.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2010, the Group acquired buildings, machinery, office equipment, motor vehicle and construction in progress with an aggregate cost of approximately RMB4.7 million.

As at 30 June 2010, the Group's buildings with a net book value of RMB15,879,000 (2009: RMB16,048,000) were pledged to secure a revolving credit up to RMB30,000,000 granted by Changsha Commercial Bank for a three-year term from 25 July 2008 to 25 July 2011. As at 30 June 2010, the Group did not maintain any loan balance with Changsha Commercial Bank.

10. LEASE PREPAYMENTS FOR LAND USE RIGHTS

As at 30 June 2010, the Group's lease prepayments for land use rights of RMB2,342,000 (2009: RMB2,370,000) were pledged to secure a revolving credit up to RMB30,000,000 granted by Changsha Commercial Bank. Further details of this revolving credit are set out in note 21 below. As at 30 June 2010, the Group did not maintain any loan balance with Changsha Commercial Bank.

11. INVENTORIES

	30 June 2010 *RMB'000* **(Unaudited)**	31 December 2009 *RMB'000* (Audited)
Raw materials	**57,762**	20,393
Finished goods	**12,212**	22,016
Others	**2,363**	2,378
Total	**72,337**	44,787

12. TRADE RECEIVABLES

The Group normally allows a credit period of not more than 180 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, based on the invoice date, is as follows:

	30 June 2010 *RMB'000* **(Unaudited)**	31 December 2009 *RMB'000* (Audited)
Within 3 months	**76,051**	14,902
3 to 6 months	**26,628**	1,066
Over 6 months	**6,838**	2,079
	109,517	18,047
Less: impairment	**(5,033)**	–
Total	**104,484**	18,047

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

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Prepayments to suppliers	**59,600**	54,004
Due from related parties	**47,470**	12,530
Prepaid income tax	**24,941**	–
Others	**5,177**	2,274
	137,188	68,808

Prepaid income tax represents overpaid income tax as a result of income tax holiday adjustment as set out in note 6 above, which can be used to offset future income tax liabilities.

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.

14. OTHER FINANCIAL ASSET

The Group entered into an entrusted fund management agreement (the "Agreement") on 24 March 2010 with Hunan Trust and Investment Co., Ltd. ("Hunan Trust"), an independent third party, pursuant to which, Ausnutria Hunan entrusted Hunan Trust a fund of RMB200 million to purchase a loan product (the "Loan Product") from Hunan Provincial Expressway Construction and Development Co., Ltd., an independent third party. The Loan Product is unsecured, bore interest at a rate of 5% per annum and will mature on 17 March 2011. The Loan Product is classified as a loan and receivable and was measured at amortised cost as at 30 June 2010.

15. CASH AND CASH EQUIVALENTS

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Cash and bank balances	**665,264**	1,465,887

As at 30 June 2010, the Group's cash and bank balances denominated in RMB amounted to RMB262,220,000 (31 December 2009: RMB555,444,000). The RMB is not freely convertible in the international market. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on 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 to their fair values.

16. TRADE PAYABLES

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

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within two months	**23,604**	24,768
Over two months	**883**	590
	24,487	25,358

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

17. OTHER PAYABLES AND ACCRUALS

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Advances from customers	**24,518**	22,726
Deposits	**7,190**	15,829
Due to related parties	**–**	85,452
Accrued salaries and welfare	**3,779**	4,101
Other tax payables	**3,316**	22,843
Others	**9,346**	13,669
	48,149	164,620

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

18. DIVIDEND PAYABLE

Dividend payable represented the 2009 final dividend approved during the annual general meeting of shareholders of the Company in June 2010. The dividend payable was fully paid out in July 2010.

19. 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%. The bank loan was not secured. The bank loan of RMB350,000,000 was fully repaid in January 2010.

20. SHARE CAPITAL

Shares

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Authorised:		
1,500,000,000 ordinary shares of HK$0.1 each	**132,152**	132,152
Issued and fully paid		
1,045,000,000 ordinary shares of HK$0.1 each	**92,066**	92,066

21. PLEDGE OF ASSETS

The Group's properties and lease prepayments for land use rights as at 30 June 2010 were pledged to secure a revolving banking facility of RMB30,000,000, details of which were set out in note 9 and note 10 to the financial statements.

22. CONTINGENT LIABILITIES

As at 30 June 2010, the Group did not have any significant contingent liabilities.

23. OPERATING LEASE ARRANGEMENTS

As lessee

As at 30 June 2010, the Group had the following total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
Within one year	**210**	420

24. COMMITMENTS

As at 30 June 2010, the Group did not have any significant commitments (31 December 2009: nil).

25. 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 six months ended 30 June 2010:

		Six months ended 30 June	
	Notes	**2010**	2009
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
Office rental expense to Changsha Xin Da Xin Real Estate Management Co., Ltd. ("Xin Da Xin Real Estate")	*(i)*	**210**	210
Provision of a guarantee to the Group	*(ii)*	**80,000**	27,328
Sales of merchandise to Hunan Xin Da Xin Joint Co., Ltd. ("Xin Da Xin")	*(iii)*	**–**	51
Interest income	*(iv)*	**–**	3,286
Provision of a guarantee to the Group	*(iv)*	**–**	160,000
Sale of merchandise to Hunan Aubrand Food Co., Ltd. ("Aubrand")	*(v)*	**–**	1,846
Purchase of merchandise from Aubrand	*(vi)*	**1,312**	–

Notes:

(i) The Group rents certain premises of an office building located in Changsha from Xin Da Xin Real Estate, a fellow subsidiary of the Company. During the period, 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.

(ii) As at 30 June 2010, the Group was granted a line of credit of RMB80,000,000 (2009: RMB27,328,000) by Bank of China. The line of credit was guaranteed by Xin Da Xin, a fellow subsidiary of the Group. The Group did not maintain any bank borrowings with Bank of China as at 30 June 2010.

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

(iv) 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 interest at the 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. From the bank loan of RMB160,000,000 obtained, the Group provided aggregate finance support of RMB143 million to Xin Da Xin in March 2009 which was fully settled in May 2009.

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

(vi) The Group purchased olive oil of RMB1,312,000 from Aubrand, a fellow subsidiary of the Group, and distributed the olive oil to certain employees as benefits. The sales prices were determined by reference to sales prices to major independent third party customers.

(b) Balances with related parties

	Notes	30 June 2010 *RMB'000* (Unaudited)	31 December 2009 *RMB'000* (Audited)
Prepayments, deposits and other receivables:			
Aubrand		**380**	1,564
All Harmony International Limited	*(i)*	**8,873**	–
Silver Castle International Limited	*(i)*	**4,991**	–
Ausnutria Holding Co., Ltd.	*(i)*	**10,019**	2,612
Braver Leader Limited	*(i)*	**23,207**	8,354
Other payables and accruals:			
All Harmony International Limited	*(i)*	**–**	46,403
Silver Castle International Limited	*(i)*	**–**	39,049

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

Notes:

(i) These entities are shareholders of the Company and under the control of certain executive directors of the Company. The balances were fully settled in July 2010.

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2010 *RMB'000* **(Unaudited)**	2010 *RMB'000* (Audited)
Salaries, allowances and benefits in kind	**465**	248
Retirement benefit contributions	**5**	2
Total compensation paid to key management personnel	**470**	250

26. OPERATING 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. As at 30 June 2010, 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 six months ended 30 June 2010 (six months ended 30 June 2009: nil).

27. EVENTS AFTER THE REPORTING PERIOD

The Group did not have any significant events taking place after 30 June 2010.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The Interim Condensed Consolidated Financial Statements were approved and authorised for issue by the board of directors on 30 August 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

The Group continues to carry out the five-year supply agreement with Tatura Milk Industries Limited ("**Tatura**") to secure the long term supply of milk powder for producing our 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 us to meet additional supply requirement.

The Group's wholesale distribution and sale of paediatric milk formula products to distributors are through an extensive distribution network across 27 provinces, 4 autonomous regions, 4 municipalities in the PRC and the Hong Kong Special Administrative Region. 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. We have also appointed an agent to distribute our products through online shopping and infomercials.

For the six months period ended 30 June 2010, the Group's sales reached RMB294.55 million, which was a decrease of approximately 8.23% as compared with the same period of the previous year. Nevertheless, the gross profit margin of the overall products has increased. The Group's gross profit of RMB153.98 million represented an increase of approximately 13.01% as compared with the same period of the previous year. The Group currently has four different 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 main priorities of the Group in the six months period ended 30 June 2010 are to enhance the sales network and sales force and to better secure our upstream supply. The Group has contracted more distributors and expanded our sales team by employing more sales personnel.

Details of the Group's products and analysis of their performances during the six months period ended 30 June 2010 are set out below:

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 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 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 six months period ended 30 June 2010 has decreased by approximately 3.67% as compared to the same period of last year and contributed approximately 11.06% of the Group's total revenue (six months ended 30 June 2009: approximately 10.54%).

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 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 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 half year has decreased by approximately 35.69% as compared to the same period of the previous year and contributed approximately 29.93% of the Group's total revenue (six months ended 30 June 2009: approximately 42.71%). Due to the satisfactory sales performance of another series, namely the Allnutria Organic Series as set out below, the contribution of this series in the Group's total revenue has dropped during the half year.

Allnutria Series

The Allnutria Series, which was jointly developed by the Group and 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 six months period ended 30 June 2010. Sales of this series for the six months period ended 30 June 2010 decreased by approximately 8.22% as compared to the same period in 2009 and contributed approximately 44.82% of the Group's total revenue (six months ended 30 June 2009: approximately 44.82%).

The Allnutria Organic Series

The Group launched the Allnutria Organic Series products in early 2010 which has 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 6 months of age; for infants and toddlers aged from 6 months to 12 months; and for toddlers aged from 12 months to 3 years.

Since the Allnutria Organic Series meets the requirements of parents who particularly concern about the health and using 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 half year. The sales of Allnutria Organic Series during six months period ended 30 June 2010 has contributed approximately 13.34% 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 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 other series and decreased by approximately 60.32% during the six months period ended 30 June 2010 and contributed 0.85% of the Group's total revenue (six months ended 30 June 2009: approximately 1.93%).

Branding and Marketing

The Group's trademark "Ausnutria" has recently been accredited as "China Wellknown Trademark" in early 2010 by the Trademark Office of the State Administration for Industry & Commerce of the PRC in relation to trademark awareness. The Group has focused on brand building, such as advertising through CCTV and the Hong Kong ATV Channel. Moreover, we have 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 PRC.

The Group considers a number of factors have contributed to its success and growth of its business, among which include the adoption of an innovative and special business strategy and development of an efficient business model for marketing, distribution and customer services. The Group believes that its brand recognition and reputation are instrumental to its success and growth.

Financial Review

The Group recorded a total revenue for the six months ended 30 June 2010 of approximately RMB294,550,000 (six months ended 30 June 2009: RMB320,972,000), a decrease of approximately 8.23% as compared to the previous year. The unaudited profit attributable to owners of the parent company was approximately RMB59,652,000 (six months ended 30 June 2009: RMB65,162,000) and the basic earnings per share was RMB5.71 cents (six months ended 30 June 2009: RMB8.15 cents), representing a decrease of approximately RMB2.44 cents over the corresponding period of prior year.

Material Investment and Acquisition and Disposal of Subsidiaries

During the period, there was no material investment and acquisition or disposal of subsidiaries.

Future Plans for Material Investment

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, amongst others, in Australia, New Zealand and Europe. As 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 except those disclosed in the relevant public announcement.

Financial Resource, Liquidity and pledge of Assets

As at 30 June 2010, net assets of the Group amounted to approximately RMB1,085,187,000 (31 December 2009: RMB1,080,573,000); current assets amounted to approximately RMB1,179,273,000 (31 December 2009: RMB1,597,529,000), of which approximately RMB665,264,000 (31 December 2009: RMB1,465,987,000) were cash and bank deposits.

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

As at 30 June 2010, except for the pledge of the Group's building with a net book value of RMB15,879,000 (31 December 2009: RMB16,048,000) and lease prepayments for land use rights of RMB2,342,000 (31 December 2009: RMB2,370,000), the Group has not pledged any other assets to any third party (31 December 2009: nil).

Capital Structure

Details of movement in the company's authorized or issued share capital during the period are set out in note 20. The Company's capital structure only comprises ordinary shares.

Gearing Ratio

As at 30 June 2010, the Group's current liabilities amounted to approximately RMB127,755,000 (31 December 2009: RMB546,529,000). The net assets value per share of the Group was approximately RMB1.04 (31 December 2009: approximately RMB1.03). The Group's ratio of current liabilities over current assets was approximately 10.83% (31 December 2009: approximately 34.21%) and the gearing ratio was approximately 11.87% (31 December 2009: approximately 50.58%) on the basis of total liabilities over net assets. As at 30 June 2010, the Group had no outstanding bank loans (31 December 2009: RMB350,000,000).

Interest and Foreign Exchange Risk

During the reporting period, the Group did not have any debt obligation with floating interest rates (31 December 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 presentation currency. As at 30 June 2010, except for certain cash and bank balances which are denominated in HK$, the Group's assets and liabilities were all accounted for in RMB and the fluctuations in foreign exchange had no material effect on the Group's equity.

Credit Risk

The Group only trades with recognised and creditworthy third parties. The Group seeks to maintain strict control over its outstanding receivables and closely monitors the collection process 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 Commitment

As at 30 June 2010, the Group did not have any significant capital commitment (31 December 2009: nil).

Contingent Liabilities

As at 30 June 2010, the Group did not have any significant contingent liabilities (31 December 2009: nil).

Use of Proceed

The shares of the Company were listed on the main board of the Hong Kong Stock Exchange on 8 October 2009 with net proceeds from the global offering of the Company 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 30 June 2010 was as follows:

	HK$'000
Invest in upstream operations	–
Expand our distribution network and brand building	125,839
Enhance our research and development efforts	7,473
Introduce new series of organic paediatric nutrition products	47,179
Establish new production lines and warehouse	1,883
General working capital	51,190
	233,564

The remaining balance was deposited in reputable financial institutions.

The Directors intend to apply the remaining net proceeds in the manner set out in the prospectus of the Company.

Employees

As at 30 June 2010, the Group employed approximately 474 employees (31 December 2009: 307). The increase in the number of employees was due to 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 30 June 2010 amounted to approximately RMB11,599,000 (30 June 2009 RMB6,373,000). The increase in total employees expenses was due to the increase in the number of employees and salary increments adjusted in accordance with the labour market trend.

Changes of Directors and Senior Management

During the reporting period, the Company's joint company secretary, Mr. LI Wing Sum Steven has resigned on 1 July 2010. The Company has appointed Mr. LAM Hiu Fung as the chief financial officer and joint company secretary on 17 August 2010. Details of which please refer to the announcement dated 17 August 2010. There was no other change of Directors and Senior Management during the period.

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 six months ended 30 June 2010.

DIVIDEND DISTRIBUTION

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

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has fully complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the six months period ended 30 June 2010.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2010, the interests and short positions of the directors and supervisors 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 of the Listing Rules, were as follows:

Name	Number of Ordinary Share	Nature of Interest	Percentage of issued share capital
Mr. Wu Yueshi ("Mr. Wu")	593,000,000	Interest of controlled corporation	56.75%
Mr. Yan Weibin ("Mr. Yan")	200,000,000	Interest of controlled corporation	19.13%
Mr. Chen Yuanrong ("Mr. Chen")	107,000,000	Interest of controlled corporation	10.24%

Save as disclosed above, as at 30 June 2010, none of the Directors 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 of 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 30 June 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)	333,000,000	Registered owner	31.87%
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)	593,000,000	Interest of controlled corporation	56.75%
Ms. Xiong Fanyi ("Mrs. Y Wu") (5)	593,000,000	Family interest	56.75%
FMR LLC	84,939,000	Registered owner	8.13%

Note:

1. All Harmony is owned as to 49.22% by Mr. Chen and 20 former and present employees of our 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 30 June 2010, no person, other than the directors of the Company, whose interests are set out in the section headed "Directors' 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.

SHARE OPTION SCHEME

As to attract and retain the eligible persons, to provide additional incentive to them and to promote the success of the business of the Group, the Company conditionally adopted a share option scheme (the "Scheme") on 19 September 2009 whereby the Board are authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the shares of the Company (the "Shares") to, inter alia, any employees (full-time or part-time), directors, consultants and advisers or any substantial shareholder, distributors, contractors, suppliers, agents, customers, business partners or service providers of the Group. During the period under review, no share option had been granted or agreed to be granted by the Company.

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 of Directors 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. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong (Chairman). The Company's and the Group's financial statements for the six months ended 30 June 2010 have respectively been reviewed by the audit committee.

PUBLICATION OF INTERIM REPORT

The 2010 Interim 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 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, 30 August 2010

As at the date of this announcement, the Board comprises 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.