

# Interim Report 2010



**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)

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## 2 CHAIRMAN'S STATEMENT

### To all shareholders:

By order of the Board, I hereby present the half-yearly report of Ausnutria Dairy Corporation Ltd (the "Company") and its subsidiaries (the "Group") for the period from 1 January 2010 to 30 June 2010.

The first half of 2010 was the first six-month period after the listing of the Group on the main board of the Stock Exchange of Hong Kong Limited on 8 October 2009. During the period, the Company primarily carried out the tasks with all its strength in accordance with the guidelines set out in the prospectus, and steadily proceeded with consolidating upstream suppliers, enhancing research and development capability, expanding marketing network and strengthening the build-up of a human resources team.

The business objectives of the Group are: reinforcing and strengthening our relationships with existing milk powder suppliers as well as securing new supplies by sourcing milk powder from new suppliers to diversify our sources of supply; increasing our competitiveness and expanding our product range in the market segment of high-priced and premium-priced paediatric milk formula products; reinforcing and expanding our distribution network in the PRC and other regions; enhancing our focus and efforts in research and development; improving our production facilities and expanding our storage capacity; and evaluating the opportunities for upward integration to secure our milk powder supplies by investing in cattle farms or milk powder producers or by cooperating with international institutions that produce milk powder.

The Group focuses on brand building to create an image as a manufacturer of premium paediatric milk formula products distribution supplier, including product quality, the distribution network and customer services. Although we were not able to achieve the earnings in the first half of 2010 as we have expected, we believed our competitive strengths were improved substantially and our development capabilities were enhanced in the first half of the year following the listing of the group, as a result of our efforts for developing upstream suppliers, building a long-term cooperation relationship and expanding distribution network.

Following the melamine incident, the PRC government has introduced a number of regulations and initiatives aimed at regulating the dairy products industry and improving food safety of dairy products to restore consumers' confidence. The Group believes these regulations and initiatives will discipline the industry with stricter standards and as a whole, will be more beneficial to the Group's business development in the long run.

The Group will continue to launch new products which include organic products and products of a brand new formula, as well as a line of products produced by French-based company NUTRIBIO. This move will be very conducive to the Group's performance in the coming year. Moreover, the Group will continue to strengthen its distribution network, enhance the placement of media advertising in various regions and carry out more discussions with other overseas suppliers on the development of a new series of specialty paediatric milk formula products and other paediatric nutritional products. The Group believes its performance will continue to grow in the coming year and expects to continue to seek a satisfactory return for the shareholders of the Company.

Lastly, I would like to take this opportunity to extend our thanks to the customers, suppliers, distributors and other business partners of the Group for their support and trust, and our heartfelt thanks to the board members and senior management of the Company as well as to all the staff of the Group for their dedication and diligence, and the sincere thanks to all shareholders of the Company for your tremendous support.

**Wu Yueshi**  
*Chairman*

Changsha City, China  
30 August 2010



## BOARD OF DIRECTORS

### Executive Directors

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

### Independent Non-executive Directors

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

## COMPANY SECRETARIES

Ms. Ng Siu Hung  
Mr. Lam Hiu Fung

## AUTHORISED REPRESENTATIVES

Ms. Ng Siu Hung  
Mr. Lam Hiu Fung

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## AUDITORS

Ernst & Young  
Certified Public Accountants

## COMPLIANCE ADVISER

China Merchants Securities (HK) Co., Ltd.

## LEGAL ADVISER (As to Hong Kong law)

Mallesons Stephen Jaques

## REGISTERED OFFICE

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

## HEADQUARTER

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No. 168 Huangxing Middle Road  
Changsha City, Hunan Province, China

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG SHARE REGISTRAR

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

## PRINCIPAL BANKERS

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

## STOCK CODE

1717



## 4 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.



## 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 for 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 six months period ended 30 June 2009. 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 previous 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 report, 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 to the financial statement. 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 Commitments

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 Stock Exchange of Hong Kong Limited 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).



## 10 OTHER INFORMATION

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
	<u>233,564</u>

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 six months 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

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.

## Disclosure Pursuant to Rule 13.51B (1) of the Listing Rules

Since the publication of the latest annual report of the Company, Mr. Chan Yuk Tong was appointed as an independent non-executive director of Great Wall Motor Company Limited (Stock Code: 2333) and Trauson Holdings Company Limited ("Trauson") (Stock Code: 325) on 18 May 2010 and 10 June 2010, respectively, whose shares of both companies are listed on the Stock Exchange Hong Kong Limited. The shares of Trauson have been listed on the Stock Exchange Hong Kong Limited since 29 June 2010.

Saved as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules.

## 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 Shares	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 reporting period 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") <sup>(1)</sup>	107,000,000	Registered owner	10.24%
Brave Leader Limited ("Brave Leader") <sup>(2)</sup>	333,000,000	Registered owner	31.87%
Silver Castle International Limited ("Silver Castle") <sup>(3)</sup>	60,000,000	Registered owner	5.74%
Ausnutria Holding Co Ltd ("Ausnutria BVI") <sup>(4)</sup>	200,000,000	Registered owner	19.13%
Mr. Chen Yuanrong <sup>(1)</sup>	107,000,000	Interest of controlled corporation	10.24%
Mr. Wu Yueshi <sup>(2,3,4)</sup>	593,000,000	Interest of controlled corporation	56.75%
Ms. Xiong Fanyi ("Mrs. Y Wu") <sup>(5)</sup>	593,000,000	Family interest	56.75%
FMR LLC	84,939,000	Registered owner	8.13%

Note:

- All Harmony is owned as to 49.22% by Mr. Chen and 20 former and present employees of our Group.
- 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.
- Silver Castle is owned as to 59.57% by Mr. Wu, 30.67% by Ms. X Wu and 9.76% by Mr. Yan.
- Ausnutria BVI is owned as to 60% by Mr. Wu, 30% by Mr. Yan and 10% by Mrs. Y Wu.
- 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.





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

**To the board of directors of  
Ausnutria Dairy Corporation Ltd**  
*(Incorporated in the Cayman Islands with limited liabilities)*

## Introduction

We have reviewed the interim condensed consolidated financial statements set out on pages 16 to 34, which comprise the interim condensed consolidated statement of financial position of Ausnutria Dairy Corporation Ltd (the "Company") and its subsidiaries (collectively the "Group") as of 30 June 2010 and the related interim condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six months then ended and explanatory notes (collectively referred to as "Interim Condensed Consolidated Financial Statements"). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board ("IASB").

The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of Interim Condensed Consolidated Financial Statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Interim Condensed Consolidated Financial Statements are not prepared, in all material respects, in accordance with IAS 34.

**Ernst & Young**  
*Certified Public Accountants*

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

30 August 2010





# 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

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30 June 2010

	Notes	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
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		<b>34,681</b>	29,573
<b>CURRENT ASSETS</b>			
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		<b>1,179,273</b>	1,597,529
<b>CURRENT LIABILITIES</b>			
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		<b>127,755</b>	546,529
<b>NET CURRENT ASSETS</b>		<b>1,051,518</b>	1,051,000
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,086,199</b>	1,080,573
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		1,012	–
Total non-current liabilities		<b>1,012</b>	–
<b>NET ASSETS</b>		<b>1,085,187</b>	1,080,573
<b>EQUITY</b>			
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		<b>1,085,187</b>	1,080,573



# 18 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Notes	Attributable to owners of the parent						Total equity	
		Issued capital	Share premium	Capital reserves*	Statutory surplus reserve*	Exchange fluctuation reserve*	Retained earnings*		Proposed final dividend
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Six months ended</b>									
<b>30 June 2010 (Unaudited)</b>									
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		<u>92,066</u>	<u>675,843</u>	<u>23,406</u>	<u>26,598</u>	<u>(20)</u>	<u>267,294</u>	<u>-</u>	<u>1,085,187</u>
<b>Six months ended</b>									
<b>30 June 2009 (Audited)</b>									
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		<u>-</u>	<u>-</u>	<u>(79,073)</u>	<u>8,555</u>	<u>10</u>	<u>138,728</u>	<u>-</u>	<u>68,220</u>

\* 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

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	2010 RMB'000 (Unaudited)	2009 RMB'000 (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	<u>665,264</u>	<u>138,843</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	<u>665,264</u>	<u>138,843</u>



## 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: <i>Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
IFRS 3 (Revised)	<i>Business Combinations</i>
Amendments to IFRS 5	Amendments to IFRS 5: <i>Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i>
IAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
IAS 39 Amendment	Amendment to IAS 39 Financial Instruments: <i>Recognition and Measurement – Eligible Hedged Items</i>
IFRIC 17	<i>Distribution of Non-cash Assets to Owners</i>
IFRIC 18	<i>Transfer of Assets from Customers</i>
Amendments to IFRS 5 included in Improvements to IFRSs issued in May 2008	Amendments to IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary</i>

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.



## 22 NOTES TO FINANCIAL STATEMENTS

For the six months ended 30 June 2010

### 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:

	Notes	Six months ended	
		30 June	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Audited)
Revenue			
Sale of goods		<u>294,550</u>	<u>320,972</u>
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		<u>–</u>	<u>293</u>
Total other income and gains		<u>7,388</u>	<u>4,547</u>

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

### 4. Finance Costs

	Six months ended	
	30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Audited)
Interest on a bank loan wholly repayable within five years	<u>1,371</u>	<u>4,184</u>



## 5. Profit Before Tax

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

	Six months ended	
	30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (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
	<b>11,599</b>	<b>6,373</b>

\* 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 HK\$'000 (Unaudited)	2009 HK\$'000 (Audited)
Current – PRC	4,686	21,908
Deferred tax	(66)	–
Total tax charge for the period	<u>4,620</u>	<u>21,908</u>

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:



# NOTES TO FINANCIAL STATEMENTS

For the six months ended 30 June 2010

## 30 June 2010 (Unaudited)

	Hong Kong		Mainland China		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	<u>(3,421)</u>		<u>67,691</u>		<u>64,270</u>	
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	<u>564</u>	<u>(16.5)</u>	<u>-</u>	<u>-</u>	<u>564</u>	<u>0.9</u>
Tax charged at the Group's effective rate	<u>-</u>	<u>-</u>	<u>4,620</u>	<u>6.8</u>	<u>4,620</u>	<u>7.2</u>

## Group – 30 June 2009 (Audited)

	Hong Kong		Mainland China		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	<u>-</u>		<u>87,069</u>		<u>87,069</u>	
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	<u>-</u>	<u>-</u>	<u>21,908</u>	<u>25.2</u>	<u>21,908</u>	<u>25.2</u>



## 26 NOTES TO FINANCIAL STATEMENTS

For the six months ended 30 June 2010

### 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 (for 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 HK\$'000 (Unaudited)	2009 HK\$'000 (Audited)
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>59,650</u>	<u>65,161</u>

#### Shares

	Six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Audited)
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	<u>1,045,000,000</u>	<u>800,000,000</u>

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

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



## 28 NOTES TO FINANCIAL STATEMENTS

For the six months ended 30 June 2010

### 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:

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

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

### 13. Prepayments, Deposits and Other Receivables

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



For the six months ended 30 June 2010

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 receivable and was measured at amortised cost as at 30 June 2010.

## 15. Cash and Cash Equivalents

	<b>30 June 2010 RMB'000 (Unaudited)</b>	31 December 2009 RMB'000 (Audited)
Cash and bank balances	<b><u>665,264</u></b>	<u>1,465,887</u>

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.



## 30 NOTES TO FINANCIAL STATEMENTS

For the six months ended 30 June 2010

### 16. Trade Payables

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

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

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

### 17. Other Payables and Accruals

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

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

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

## 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.





## 32 NOTES TO FINANCIAL STATEMENTS

For the six months ended 30 June 2010

### 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:

	<b>30 June 2010 RMB'000 (Unaudited)</b>	31 December 2009 RMB'000 (Audited)
Within one year	<b>210</b>	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:

		<b>Six months ended 30 June</b>	
	Notes	<b>2010 RMB'000 (Unaudited)</b>	2009 RMB'000 (Audited)
Office rental expense to Changsha Xin Da Xin Real Estate Management Co., Ltd. ("Xin Da Xin Real Estate")	(i)	<b>210</b>	210
Provision of a guarantee to the Group	(ii)	<b>80,000</b>	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)	<b>1,312</b>	-



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.



## 34 NOTES TO FINANCIAL STATEMENTS

For the six months ended 30 June 2010

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)	2009 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 (for 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.

