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24 September 2009

The Directors
Ausnutria Dairy Corporation Ltd

Dear Sirs,

We set out below our report on the financial information relating to Ausnutria Dairy Corporation Ltd (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the years ended 31 December 2006, 2007 and 2008, and the six-month period ended 30 June 2009 (the "Relevant Periods"), and the six-month period ended 30 June 2008 (the "30 June 2008 Financial Information"), prepared on the basis of presentation set forth in note 2 of Section II, for the document (the "Document").

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2009. On 15 September 2009, the Company acquired the entire issued share capital of Spring Choice Limited, a company incorporated in the British Virgin Islands, which is the holding company of the other subsidiaries comprising the Group as set out in note 1 of Section II pursuant to a group reorganisation (the "Reorganisation"). Apart from the aforesaid acquisition, the Company has not commenced any business or operation since its incorporation.

The Group is principally engaged in the production, distribution and sale of high-priced and premium-priced paediatric milk formula products in the People's Republic of China (the "PRC").

The financial information set out in this report, including the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows of the Group for each of the Relevant Periods, and the combined statement of financial position of the Group as at 31 December 2006, 2007 and 2008, and 30 June 2009, together with the notes thereto (collectively referred to as the "Financial Information"), has been prepared based on the combined financial statements of the Group in accordance with International Financial Reporting Standards (the "IFRSs", which include all International Financial Reporting Standards, International Accounting Standards (the "IAS") and Interpretations) issued by the International Accounting Standards Board (the "IASB") and is presented on the basis set out in note 2 of Section II which was audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In preparing this report, no adjustments were considered necessary to restate the audited combined financial statements of the Group.

Respective Responsibilities of Directors and Reporting Accountants

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

The Financial Information set out in this report has been prepared based on the audited combined financial statements of the Group as if the Reorganisation had been completed as at the beginning of the Relevant Periods.

The 30 June 2008 Financial Information has been prepared solely for the purpose of this report. The directors of the Company are responsible for preparing this comparative financial information. It is our responsibility to form an independent review conclusion, based on our review on the comparative financial information and to report our conclusion to you.

Procedures Performed in Respect of the Financial Information

We have audited the combined financial statements of the Group for the years ended 31 December 2006, 2007 and 2008 and the six-month period ended 30 June 2009, which were prepared by the directors of the Company in accordance with IFRSs. We conducted our audit in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

Procedures Performed in Respect of the 30 June 2008 Financial Information

For the purpose of this report, we have also performed a review of the 30 June 2008 Financial Information 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 HKICPA. A review of interim financial information consists principally of making enquiries of the management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2008 Financial Information.

Opinion in Respect of the Financial Information

In our opinion, the Financial Information for the Relevant Periods prepared on the basis of presentation set out in note 2 of Section II gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2006, 2007 and 2008, and 30 June 2009 and that of the Company as at 30 June 2009, and of the Group's combined comprehensive income and the combined cash flows for each of the Relevant Periods in accordance with IFRSs.

Review conclusion in Respect of the 30 June 2008 Financial Information

Based on our review, which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that 30 June 2008 Financial Information does not give a true and fair view of the combined comprehensive income and cash flows of the Group for the six-month period ended 30 June 2008 in accordance with IFRSs.

I. FINANCIAL INFORMATION

Combined Statement of Comprehensive Income

The following is a summary of the combined statement of comprehensive income of the Group for each of the Relevant Periods and six-month period ended 30 June 2008, prepared on the basis set out in note 2 of Section II:

		Year ended 31 December			Six-month period ended 30 June	
		2006	2007	2008	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
REVENUE	6	93,716	186,526	405,166	174,634	320,972
Cost of sales		(48,443)	(107,729)	(259,163)	(108,258)	(184,711)
Gross profit		45,273	78,797	146,003	66,376	136,261
Other revenue and gains	6	60	1,045	836	484	4,547
Selling and distribution costs		(21,877)	(43,335)	(56,628)	(27,271)	(44,717)
Administrative expenses		(4,731)	(8,039)	(9,162)	(4,433)	(4,720)
Other expenses		(3,300)	(234)	(695)	(607)	(121)
Finance costs	7	(536)	(493)	(859)	—	(4,181)
Profit before tax	8	14,889	27,741	79,495	34,549	87,069
Tax	11	(3,036)	(5,368)	(8,966)	(4,370)	(21,908)
PROFIT FOR THE YEAR/ PERIOD		11,853	22,373	70,529	30,179	65,161
Other comprehensive income:						
Exchange difference on translating foreign operations		—	(5)	25	—	(10)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/ PERIOD		11,853	22,368	70,554	30,179	65,151
Profit attributable to:						
Owners of the Company		11,853	22,373	70,529	30,179	65,161
Total comprehensive income attributable to:						
Owners of the Company		11,853	22,368	70,554	30,179	65,151
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY OWNERS OF THE COMPANY — basic (RMB)	13	1.48 cents	2.80 cents	8.82 cents	3.77 cents	8.15 cents

I. FINANCIAL INFORMATION — continued

Combined Statement of Financial Position

The following is a summary of the combined statement of financial position of the Group as at the end of each of the Relevant Periods, prepared on the basis set out in note 2 of Section II:

		As at 31 December			As at 30 June
		2006	2007	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	14	2,237	22,369	26,434	27,045
Lease prepayments for land use rights	15	—	2,427	2,370	2,342
Intangible assets	16	453	460	393	359
Total non-current assets		2,690	25,256	29,197	29,746
CURRENT ASSETS					
Inventories	17	8,531	28,824	79,965	48,119
Trade and bills receivables	18	5,702	4,544	6,355	24,470
Prepayments, deposits and other receivables	19	11,886	33,084	33,865	46,768
Cash and cash equivalents	20	21,448	24,939	77,659	138,843
Total current assets		47,567	91,391	197,844	258,200
CURRENT LIABILITIES					
Trade payables	21	2,755	2,267	14,480	12,868
Other payables and accruals	22	45,344	71,680	69,889	188,738
Interest-bearing bank loan	23	—	—	30,000	—
Tax payable		2,930	7,706	7,124	18,120
Total current liabilities and total liabilities		51,029	81,653	121,493	219,726
NET CURRENT ASSETS/(LIABILITIES)		(3,462)	9,738	76,351	38,474
TOTAL ASSETS LESS CURRENT LIABILITIES		(772)	34,994	105,548	68,220
NET ASSETS/(LIABILITIES)		(772)	34,994	105,548	68,220
EQUITY					
Equity attributable to the owners of the Company and total equity		—	—	—	—
Issued capital	24	—	—	—	—
Retained earnings/(accumulated losses)		(11,161)	10,091	73,567	138,728
Other components of equity		10,389	24,903	31,981	(70,508)
Total equity		(772)	34,994	105,548	68,220

I. FINANCIAL INFORMATION — continued

Combined Statement of Changes in Equity

The movements in the combined statement of changes in equity of the Group for each of the Relevant Periods and the six-month period ended 30 June 2008, prepared on the basis set out in note 2 of Section II, are as follows:

	Attributable to owners of the Company and total equity					
	Issued capital	Capital reserves *(note (ii))**	Statutory surplus reserve *(note (iii))**	Exchange fluctuation reserve*	Retained earnings/ (accumulated losses)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	—	10,008	33	—	(22,666)	(12,625)
Total comprehensive income for the year	—	—	—	—	11,853	11,853
Transfer to statutory surplus reserves	—	—	348	—	(348)	—
At 1 January 2007	—	10,008	381	—	(11,161)	(772)
Total comprehensive income for the year	—	—	—	(5)	22,373	22,368
Transfer to statutory surplus reserves	—	—	1,121	—	(1,121)	—
Contribution from the owners *(note (i))*	—	13,398	—	—	—	13,398
At 1 January 2008	—	23,406	1,502	(5)	10,091	34,994
Total comprehensive income for the year	—	—	—	25	70,529	70,554
Transfer to statutory surplus reserves	—	—	7,053	—	(7,053)	—
At 31 December 2008	—	23,406	8,555	20	73,567	105,548
Total comprehensive income for the period	—	—	—	(10)	65,161	65,151
Distribution to the owners *(note (iv))*	—	(102,479)	—	—	—	(102,479)
At 30 June 2009	—	(79,073)	8,555	10	138,728	68,220
Six-month period ended 30 June 2008 (unaudited)						
At 1 January 2008	—	23,406	1,502	(5)	10,091	34,994
Total comprehensive income for the period	—	—	—	—	30,179	30,179
At 30 June 2008	—	23,406	1,502	(5)	40,270	65,173

* These components of equity comprise the other components of equity of RMB10,389,000, RMB24,903,000, RMB31,981,000 and RMB(70,508,000) in the combined statement of financial position as at 31 December 2006, 2007 and 2008, and 30 June 2009, respectively. A subsidiary of the Company received capital injection of RMB102.5 million from the Company's shareholders by way of cash in July 2009.

I. FINANCIAL INFORMATION — continued

Combined Statement of Changes in Equity — continued

Notes:

(i) In November 2007, Hunan Mornring Foodstuff Co., Ltd. ("Mornring"), a fellow subsidiary of the Company, transferred items of property, plant and equipment and a lease prepayment for land use rights with an aggregate net carrying value of RMB16,339,000 to the Group at nil consideration through local government authorities (the "Transfer"). The contribution from the owners of the Group represents the net carrying value of items of property, plant and equipment and the lease prepayment for land use rights transferred to the Group after subtracting a tax provision of RMB2,941,000 incurred directly from the Transfer.

(ii) Capital reserves represent the aggregate issued paid-in capital of subsidiaries comprising the Group and contribution from the owners as mentioned in note (i) above after subtracting the distribution to the owners as mentioned in note (iv) below.

(iii) In accordance with the PRC Company Law, the Company's subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses) determined in accordance with generally accepted accounting principles in the PRC (the "PRC GAAP") to the statutory surplus reserve until the balance of the reserve fund reaches 50% of the entity's registered capital. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory surplus reserve is not less than 25% of registered capital.

(iv) The distribution to the owners represented payables to the then equity holders of Ausnutria Dairy (Hunan) Co., Ltd. ("Ausnutria Hunan"), a subsidiary of the Company, to transfer the legal titles of 75% equity interests in Ausnutria Hunan to the Group pursuant to the Reorganisation. Since the 75% equity interests in Ausnutria Hunan were ultimately owned by the shareholders of the Company both before and after the transfer of 75% equity interests in Ausnutria Hunan to the Group, the transfer was accounted for as a distribution to the owners of the Company. The payables were fully settled by capital injections to the Group from its shareholders in July 2009.

I. FINANCIAL INFORMATION — continued

Combined Statement of Cash Flows

The combined statement of cash flows of the Group for each of the Relevant Periods and six-month period ended on 30 June 2008, prepared on the basis set out in note 2 of Section II, are as follows:

		Year ended 31 December			Six-month period ended 30 June	
		2006	2007	2008	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		14,889	27,741	79,495	34,549	87,069
Adjustments for:						
Finance costs	7	536	493	859	—	4,181
Interest income	6	(60)	(669)	(836)	(484)	(4,054)
Depreciation	8	399	643	2,089	875	1,239
Loss on disposal of property, plant and equipment	8	—	—	—	—	16
Impairment of trade and bills receivables	8	1,560	—	—	—	—
Amortisation of intangible assets	8	58	65	67	34	34
Amortisation of lease prepayments for land use rights	8	—	5	57	28	28
		17,382	28,278	81,731	35,002	88,513
(Increase)/decrease in inventories		(5,337)	(20,293)	(51,141)	(27,117)	31,846
(Increase)/decrease in trade and bills receivables		(5,284)	1,158	(1,811)	(1,072)	(18,115)
(Increase)/decrease in prepayments, deposits and other receivables		(7,842)	(21,554)	18,183	15,824	(31,763)
Increase/(decrease) in trade payables		153	(488)	12,213	320	(1,612)
Increase/(decrease) in other payables and accruals		19,308	21,379	(4,050)	(17,053)	17,467
Cash generated from operations		18,380	8,480	55,125	5,904	86,336
Interest paid		(536)	(493)	(859)	—	(4,181)
Interest received		60	669	836	484	4,054
PRC tax paid		(235)	(3,533)	(9,548)	(3,840)	(10,912)
Net cash inflow from operating activities		17,669	5,123	45,554	2,548	75,297
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(100)	(7,096)	(6,079)	(1,057)	(1,852)
Purchase of intangible assets	16	(37)	(72)	—	—	—
(Increase)/decrease in amounts due from related parties included in prepayments, deposits and other receivables		(543)	453	(17,995)	(17,995)	18,003
Net cash inflow/(outflow) from investing activities		(680)	(6,715)	(24,074)	(19,052)	16,151
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loans	23	—	—	30,000	—	160,000
Repayment of bank loans		—	—	—	—	(190,000)
Increase/(decrease) in amounts due to related parties included in other payables and accruals		(964)	5,088	1,215	(18)	(254)
Net cash inflow/(outflow) from financing activities		(964)	5,088	31,215	(18)	(30,254)
NET INCREASE IN CASH AND CASH EQUIVALENTS		16,025	3,496	52,695	(16,522)	61,194
Cash and cash equivalents at beginning of year/period		5,423	21,448	24,939	24,939	77,659
Effect of foreign exchange rate changes, net		—	(5)	25	—	(10)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		21,448	24,939	77,659	8,417	138,843
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and cash equivalents	20	21,448	24,939	77,659	8,417	138,843

II. NOTES TO THE FINANCIAL INFORMATION

1. Corporate Information and The Reorganisation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2009. The authorised share capital of the Company was HK$150,000,000 divided into 1,500,000,000 shares of HK$0.10 each. The registered office of the Company is located at Room 305, 3rd Floor, Arion Commercial Centre, 2–12 Queen's Road West, Hong Kong.

During the Relevant Periods, the Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the section headed "Corporate reorganisation" in Appendix VI "Statutory and General Information" of the Document.

At the date of this report, the Company had direct or indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered paid-up capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	indirect	
Spring Choice Limited (i) . . .	British Virgin Islands 22 April 2009	US$200	100	—	Investment holding
Ausnutria Dairy Co., Ltd. ("Ausnutria Hong Kong") (iii)	Hong Kong 25 January 2007	HK$1	—	100	Investment holding
Ausnutria Australia Dairy Pty Ltd. ("Ausnutria Australia") (i)	Australia 7 October 2003	A$500,000	—	100	Investment holding
Ausnutria Dairy Hunan Co., Ltd 澳優乳品湖南有限公司 ("Ausnutria Hunan") (ii) .	PRC 15 September 2003	RMB10,000,000	—	100	Production, marketing and distribution of paediatric nutrition products
Ausnutria Dairy (HK) Company Limited (iv) . . .	Hong Kong 3 November 2008	HK$100	—	100	Investment holding

All companies comprising the Group have adopted 31 December as their financial year end date.

(i) No statutory audited financial statements have been prepared since its date of incorporation as it is not subject to any statutory audit requirements in its jurisdiction of incorporation.

(ii) The statutory audited financial statements for each of the years ended 31 December 2006, 2007 and 2008 prepared in accordance with the PRC GAAP were audited by Hunan Licheng Certified Public Accountants (湖南里程會計師事務所) registered in the PRC, Changsha Xiang'an United Certified Public Accountants (長沙湘安聯合會計師事務所) registered in the PRC and Hunan Licheng Certified Public Accountants, respectively.

II. NOTES TO THE FINANCIAL INFORMATION — continued

1. Corporate Information and The Reorganisation — continued

(iii) The statutory audited financial statements for the period from 25 January 2007 (date of incorporation) to 31 December 2007 and for the year ended 31 December 2008 prepared in accordance with Small and Medium-sized Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants were audited by Lee Wai Ming Certified Public Accountants incorporated in Hong Kong.

(iv) Ausnutria Dairy (HK) Company Limited was acquired by the Group on 5 July 2009 from independent third parties at cash consideration of HK$100. Ausnutria Dairy (HK) Company Limited did not carry out any business since its establishment.

2. Basis of Presentation

Pursuant to the Reorganisation, the Company became the ultimate holding company of the companies now comprising the Group since 15 September 2009. Since Mr Wu Yueshi controlled the Group before and after the Reorganisation, the Reorganisation is accounted for as reorganisation under common control in a manner similar to the pooling of interests. As a result, the Group's financial information during the Relevant Periods is prepared under the basis as if the Reorganisation had been completed at the beginning of the Relevant Periods.

The Financial Information which is based on the audited combined financial statements of the companies now comprising the Group includes the combined statement of comprehensive income, the combined statements of changes in equity, the combined statement of cash flows and the combined statement of financial position of the companies now comprising the Group, as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation, whichever is a shorter period. All significant intra-group transactions and balances have been eliminated on combination.

3. Summary of Significant Accounting Policies

Basis of preparation

The Financial Information has been prepared in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance. This report has been prepared on a historical cost basis. The accounting policies set out below have been consistently applied throughout the Relevant Periods. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

The IASB and IFRIC have issued a number of new and revised IFRSs and interpretations, which are generally effective for accounting periods beginning on or after 1 January 2006. The Group has early adopted the new IFRSs throughout the Relevant Periods as follows:

IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 21 Amendment	*Net Investment in a Foreign Operation*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*
IFRIC 4	*Determining whether an Arrangement contains a Lease*
IFRIC 8	*Scope of IFRS 2*
IFRIC 9	*Reassessment of Embedded Derivatives*
IFRIC 10	*Interim Financial Reporting and Impairment*
IFRIC 11	IFRS 2 — *Group and Treasury Share Transactions*
IFRIC 12	*Service Concession Arrangements*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*

II. NOTES TO THE FINANCIAL INFORMATION — continued

3. Summary of Significant Accounting Policies — continued

Apart from the above, the Group has early adopted Improvements to IFRSs* issued by IASB, except for the amendment to IFRS 5 which is effective for the annual periods on or after 1 July 2009

* Improvements to IFRSs contain amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.

Subsidiaries

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

Impairment of non-financial assets

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

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

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

Related parties

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

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

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

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

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

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

II. NOTES TO THE FINANCIAL INFORMATION — continued

3. Summary of Significant Accounting Policies — continued

Property, plant and equipment and depreciation

Property, plant and equipment, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each statement of financial position date.

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

Construction in progress represents buildings and various infrastructure projects under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible asset (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

II. NOTES TO THE FINANCIAL INFORMATION — continued

3. Summary of Significant Accounting Policies — continued

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

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

Lease prepayments for land use rights

Lease prepayments for land use rights represent land use rights paid to the PRC government authorities. Land use rights are initially stated at cost and subsequently charged to the combined statement of comprehensive income on the straight-line basis over the respective periods of the rights of 50 years. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of land and building as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as loans and receivables. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium-priced on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

II. NOTES TO THE FINANCIAL INFORMATION — continued

3. Summary of Significant Accounting Policies — continued

Impairment of financial assets

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the statement of comprehensive income. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

II. NOTES TO THE FINANCIAL INFORMATION — continued

3. Summary of Significant Accounting Policies — continued

Financial liabilities at amortised cost (including interest-bearing loans)

Financial liabilities including trade, bills and other payables and interest-bearing bank borrowings are initially stated at the fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the statement of comprehensive income.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

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

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

Inventories

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

Cash and cash equivalents

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as a part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs capitalised.

II. NOTES TO THE FINANCIAL INFORMATION — continued

3. Summary of Significant Accounting Policies — continued

Revenue recognition

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

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

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

Dividends

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

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

Retirement benefit schemes

The Group's subsidiaries which operate in Mainland China participate in defined contribution retirement benefit schemes organised by the local government authorities in the PRC. These subsidiaries are required to make contributions to the retirement benefit schemes which are based on a certain percentage of the total salary of those employees and have no further obligation for post-retirement benefits. The contributions are charged to the statement of comprehensive income of the Group as they become payable in accordance with the rules of the schemes.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with interests in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

II. NOTES TO THE FINANCIAL INFORMATION — continued

3. Summary of Significant Accounting Policies — continued

Income tax — continued

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

Foreign currencies

The Financial Information of the Group is presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the statement of financial position date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas entities are currencies other than the RMB. As at the financial position date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of each of the Relevant Periods, and their statements of comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the statement of comprehensive income.

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

II. NOTES TO THE FINANCIAL INFORMATION — continued

3.1 Impact of issued but not yet effective IFRSs

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

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
IFRS 1 (Revised)	*First-time Adoption of IFRSs*[1]
IFRS 3 (Revised)	*Business Combinations*[1]
IAS 27 (Revised)	*Combined and Separate Financial Statements*[1]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[1]
IFRIC 17	*Distribution of Non-cash Assets to Owners*[1]
IFRIC 18	*Transfers of Assets from Customers*[1]
IAS 39 and IFRIC 9 Amendments	Amendments to IFRIC 9 *"Reassessment of Embedded Derivatives"* and IAS 39 *"Financial Instruments: Recognition and Measurement"*[2]

Apart from the above, the Group has not adopted the amendment to IFRS 5 effective for the annual periods on or after 1 July 2009, which is one of the Improvements to IFRSs issued by IASB.

1 Effective for annual periods beginning on or after 1 July 2009.

2 Effective for annual periods ending on or after 30 June 2009.

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statements in the separate financial statements. The amendment is applied prospectively only. The IFRS 1 Amendment allows a first-time adopter of IFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the IAS 27 Amendment from 1 January 2009. The amendments have no impact on the combined financial statements. As the Group is not a first-time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

IFRS 1 (Revised) introduces a number of changes to improve the readability of the standard. The exemptions from full retrospective application of IFRS have been moved from the body of the standard into three appendices for exemptions relating to financial instruments/investments, business combinations and other IFRSs, respectively. A new appendix has been added to accommodate future exemptions that may be needed. As the Group is not a first-time adopter of IFRSs, the IFRS 1 (Revised) is not applicable to the Group.

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The Group expects to adopt IFRS 3 (Revised) from 1 January 2010. The changes introduced by this revised standard must be applied prospectively and will affect future acquisitions.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rate*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*. The Group expects to adopt IAS27 (revised) from 1 January 2010.

II. NOTES TO THE FINANCIAL INFORMATION — continued

3.1 Impact of issued but not yet effective IFRSs — continued

The amendment to IAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedge, the amendment is unlikely to have any financial impact on the Group.

IFRIC 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The Interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to IAS 10 *Events after the Balance Sheet Date* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

The transfers of assets from customers to entities in sectors such as telecoms and utilities have resulted in diversity in the accounting methods used. IFRIC 18 provides guidance on when and how to recognise such assets.

The Amendments to IFRIC 9 require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial assets out of the fair value through profit or loss category; and the assessment to be made on the basis of the circumstances that existed on the later of the date when the entity first became a party to the contract, and the date of a change in the terms of the contract that significantly modifies the cash flows that otherwise would have been required under the contract. IAS 39 is also amended to state that, if the fair value of an embedded derivative that would have to be separated on reclassification cannot be reliably measured, the entire hybrid financial instrument must remain classified as at fair value through profit or loss.

Improvements to IFRSs

In May 2008, the IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Group has not yet adopted the amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which clarifies that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The Group anticipates that these changes will have no material effect on the financial statements.

In April 2009, the IASB issued its second omnibus of amendments to its standards. Improvements to IFRSs issued in April 2009 contains amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, Appendix to IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16. Except for the amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 which are effective for annual periods beginning on or after 1 July 2009 and no transitional provisions for amendment to Appendix to IAS 18 has been specified, other amendments are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard. The Group anticipates that these improvements will have no material effect on the financial statements.

II. NOTES TO THE FINANCIAL INFORMATION — continued

4. Significant Accounting Judgements and Estimates

The preparation of this report requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

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

Impairment of assets

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Estimation uncertainties

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

Impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the trade receivables and impairment loss in the period in which such estimate has been changed. The impairment losses recognised during each of the Relevant Periods and the six-month period ended 30 June 2008 were RMB1,560,000, nil, nil, nil and nil, respectively. Further details are contained in note 8 of Section II.

II. NOTES TO THE FINANCIAL INFORMATION — continued

4. Significant Accounting Judgements and Estimates — continued

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residues values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed, at each financial year end date based on changes in circumstances. The depreciation provided during each of the Relevant Periods and the six-month period ended 30 June 2008 were RMB399,000, RMB643,000, RMB2,089,000, RMB1,239,000 and RMB875,000, respectively. Further details are contained in note 14 of Section II.

5. Segment Information

During the Relevant Periods, all of the Group's revenue and operating profit are generated from the production, marketing and distribution of high-priced and premium-priced paediatric nutrition products in the PRC. Accordingly, the Group's operating activities are attributable to a single business segment and location, and no segment information has been presented. All of the Group's non-current assets were located in the PRC during the Relevant Periods. None of the Group's sales to a single customer amounted to 10% or more of the Group's revenue during each of the Relevant Periods.

6. Revenue, Other Revenue 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 revenue and gains for each of the Relevant Periods and six-month period ended 30 June 2008 is as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue					
Sale of goods	93,716	186,526	405,166	174,634	320,972
Other revenue and gains					
Interest income	60	669	836	484	4,054
Others	—	376	—	—	493
Total other revenue and gains	60	1,045	836	484	4,547

II. NOTES TO THE FINANCIAL INFORMATION — continued

7. Finance Costs

	Year ended 31 December			Six-month period ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interest on amount due to a related party wholly repayable within five years	536	493	—	—	—
Interest on a bank loan wholly repayable within five years	—	—	859	—	4,181
	536	493	859	—	4,181

8. Profit Before Tax

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

		Year ended 31 December			Six-month period ended 30 June	
		2006	2007	2008	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Cost of inventories sold		48,443	107,729	259,163	108,258	184,711
Depreciation	14	399	643	2,089	875	1,239
Amortisation of lease prepayments for land use rights	15	—	5	57	28	28
Amortisation of intangible assets*	16	58	65	67	34	34
Minimum lease payments under operating leases		309	375	420	210	210
Loss on disposal of property, plant and equipment		—	—	—	—	16
Impairment of trade and bills receivables	18	1,560	—	—	—	—
Advertising and promotion expenses**		14,391	33,168	41,027	20,040	33,330
Employee benefit expenses (including directors' emoluments *(note 10)*):						
Wages, salaries and staff welfare		4,223	7,651	9,966	5,326	5,953
Retirement benefit contributions	9	503	575	784	392	420
		4,726	8,226	10,750	5,718	6,373

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

** The advertising and promotion expenses are included in "Selling and distribution costs" on the face of the combined statement of comprehensive income.

9. Retirement Benefits

The aggregate contributions of the Group to the retirement benefit schemes were approximately RMB503,000, RMB575,000 and RMB784,000 RMB392,000 and RMB420,000 for each of the years ended 31 December 2006, 2007 and 2008 and the six-month period ended 30 June 2008 and 2009, respectively.

II. NOTES TO THE FINANCIAL INFORMATION — continued

10. Directors' and Senior Executives' Remuneration

Details of directors' remuneration during the Relevant Periods and the six-month period ended 30 June 2008 are as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Fees	—	—	—	—	—
Other emoluments					
Salaries, allowances and benefits in kind	282	575	575	248	248
Retirement benefit contributions	3	5	5	2	2
Total	285	580	580	250	250

(a) The fees and other emoluments during the Relevant Periods and the six-month period ended 30 June 2008 related to a director of the Company.

There were no fees and other emoluments payable to [●] directors and [●] directors during the Relevant Periods and the six month period ended 30 June 2008.

(b) The name of the directors and the remuneration for each of the Relevant Periods and the six-month period ended 30 June 2008 are set out below:

	Fees	Salaries, allowances and benefit in kind	Retirement benefit contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2006				
Wu Yueshi	—	—	—	—
Chen Yuanrong	—	282	3	285
Yan Weibin	—	—	—	—
Ng Siu Hung	—	—	—	—
Qiu Weifa	—	—	—	—
Jason Wan	—	—	—	—
Chan Yuk Tong	—	—	—	—
	—	282	3	285
Year ended 31 December 2007				
Wu Yueshi	—	—	—	—
Chen Yuanrong	—	575	5	580
Yan Weibin	—	—	—	—
Ng Siu Hung	—	—	—	—
Qiu Weifa	—	—	—	—
Jason Wan	—	—	—	—
Chan Yuk Tong	—	—	—	—
	—	575	5	580
Year ended 31 December 2008				
Wu Yueshi	—	—	—	—
Chen Yuanrong	—	575	5	580
Yan Weibin	—	—	—	—
Ng Siu Hung	—	—	—	—
Qiu Weifa	—	—	—	—
Jason Wan	—	—	—	—
Chan Yuk Tong	—	—	—	—
	—	575	5	580

II. NOTES TO THE FINANCIAL INFORMATION — continued

10. Directors' and Senior Executives' Remuneration — continued

(b) — continued

	Fees	Salaries, allowances and benefit in kind	Retirement benefit contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended 30 June 2009				
Wu Yueshi	—	—	—	—
Chen Yuanrong	—	248	2	250
Yan Weibin	—	—	—	—
Ng Siu Hung	—	—	—	—
Qiu Weifa	—	—	—	—
Jason Wan	—	—	—	—
Chan Yuk Tong	—	—	—	—
	—	248	2	250
Six-month period ended 30 June 2008 (unaudited)				
Wu Yueshi	—	—	—	—
Chen Yuanrong	—	248	2	250
Yan Weibin	—	—	—	—
Ng Siu Hung	—	—	—	—
Qiu Weifa	—	—	—	—
Jason Wan	—	—	—	—
Chan Yuk Tong	—	—	—	—
	—	248	2	250

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

(c) ***Five highest paid employees***

The five highest paid employees included one director for each of the years ended 31 December 2006, 2007 and 2008 and six-month period ended 30 June 2008 and 2009. His remuneration detail is set out in note (b) above. Details of the remuneration of the remaining four highest paid employees for each of the Relevant Periods are as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, allowances and benefits in kind	428	806	820	362	362
Retirement benefit contributions	12	19	19	10	10
Total	440	825	839	372	372

II. NOTES TO THE FINANCIAL INFORMATION — continued

10. Directors' and Senior Executives' Remuneration — continued

(c) ***Five highest paid employees — continued***

The remuneration of each of the above highest paid individuals for each of the Relevant Periods fell within the range of nil to HK$1,000,000 (equivalent to RMB881,490).

During the Relevant Periods and the six-month period ended 30 June 2008, no remuneration was paid by the Group to any of the directors of the Company or any of the highest paid employees (who are not directors) as an inducement to join or upon joining the Group or as compensation for loss of office.

11. Tax

The Group is subject to income tax on an individual legal entity basis on profit arising in or derived from the tax jurisdictions in which companies within the Group are domiciled and operates. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the Relevant Periods.

The Company's subsidiary, Ausnutria Hunan, is subject to enterprise income tax ("EIT") at the statutory tax rate of 33% (comprising an enterprise income tax rate of 30% and a local income tax rate of 3%) in 2006 and 2007, and 25% in 2008 and thereafter under the then effective and current PRC income tax laws.

Pursuant to the then effective relevant PRC income tax laws and regulations, newly established foreign-invested enterprises that were engaged in manufacturing activities with the operation period over ten years were eligible to apply for a two-year EIT exemption followed by a three-year 50% EIT reduction holiday. In accordance with the approval from the relevant tax authority, Ausnutria Hunan was granted an EIT exemption from 2004 to 2005, and a preferential EIT rate of 15% in 2006 and 2007 and 12.5% in 2008. Meanwhile, Ausnutria Hunan was also granted a local income tax benefit by local tax authority, whereby Ausnutria Hunan was refunded RMB1,157,000 in 2008 for part of its local income tax paid in 2006 and 2007.

The determination of income tax in the combined statement of comprehensive income of the Group is as follows:

	Year ended 31 December			Six-month period ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current income tax	3,036	5,368	8,966	4,370	21,908

II. NOTES TO THE FINANCIAL INFORMATION — continued

11. Tax — continued

A reconciliation of tax expense applicable to profit before tax at the statutory rates for the jurisdiction in which the Group and 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:

	Year ended 31 December						Six-month period ended 30 June			
	2006		2007		2008		2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	14,889		27,741		79,495		34,549		87,069	
Income tax at the statutory income tax rate	4,913	33.0	9,155	33.0	19,874	25.0	8,637	25.0	21,767	25.0
Tax effects on preferential tax rates	(2,233)	(15.0)	(4,161)	(15.0)	(9,937)	(12.5)	(4,319)	(12.5)	—	—
Tax refunds	—	—	—	—	(1,157)	(1.5)	(121)	(0.4)	—	—
Expenses not deductible for tax	722	4.8	374	1.4	186	0.3	173	0.5	141	0.2
Tax losses utilised	(366)	(2.4)	—	—	—	—	—	—	—	—
Tax charged at the Group's effective rate	3,036	20.4	5,368	19.4	8,966	11.3	4,370	12.6	21,908	25.2

12. Dividends

No dividends were declared or paid during the Relevant Periods and the six-month period ended 30 June 2008.

In August 2009, an interim dividend of RMB30 million was declared by the Group. In the opinion of the Directors, the interim dividend will be settled prior to [●].

13. [●]

[●]

II. NOTES TO THE FINANCIAL INFORMATION — continued

14. Property, Plant and Equipment

	Buildings	Machinery	Motor vehicles	Office equipment	Leasehold improvement	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2006							
At 1 January 2006							
Cost	—	1,581	296	693	163	—	2,733
Accumulated depreciation	—	(239)	(88)	(208)	(11)	—	(546)
Net carrying amount	—	1,342	208	485	152	—	2,187
At 1 January 2006, net of accumulated depreciation	—	1,342	208	485	152	—	2,187
Additions	—	416	3	30	—	—	449
Depreciation provided during the year	—	(198)	(57)	(133)	(11)	—	(399)
At 31 December 2006, net of accumulated depreciation	—	1,560	154	382	141	—	2,237
At 31 December 2006,							
Cost	—	1,997	299	723	163	—	3,182
Accumulated depreciation	—	(437)	(145)	(341)	(22)	—	(945)
Net carrying amount	—	1,560	154	382	141	—	2,237
31 December 2007							
At 1 January 2007							
Cost	—	1,997	299	723	163	—	3,182
Accumulated depreciation	—	(437)	(145)	(341)	(22)	—	(945)
Net carrying amount	—	1,560	154	382	141	—	2,237
At 1 January 2007, net of accumulated depreciation	—	1,560	154	382	141	—	2,237
Contribution from the owners	13,850	—	—	—	—	—	13,850
Additions	—	1,213	697	73	—	4,942	6,925
Depreciation provided during the year	(53)	(295)	(145)	(140)	(10)	—	(643)
At 31 December 2007, net of accumulated depreciation	13,797	2,478	706	315	131	4,942	22,369
At 31 December 2007,							
Cost	13,850	3,210	996	796	163	4,942	23,957
Accumulated depreciation	(53)	(732)	(290)	(481)	(32)	—	(1,588)
Net carrying amount	13,797	2,478	706	315	131	4,942	22,369

II. NOTES TO THE FINANCIAL INFORMATION — continued

14. Property, Plant and Equipment — continued

	Buildings	Machinery	Motor vehicles	Office equipment	Leasehold improvement	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2008							
At 1 January 2008							
Cost	13,850	3,210	996	796	163	4,942	23,957
Accumulated depreciation	(53)	(732)	(290)	(481)	(32)	—	(1,588)
Net carrying amount	13,797	2,478	706	315	131	4,942	22,369
At 1 January 2008, net of accumulated depreciation	13,797	2,478	706	315	131	4,942	22,369
Additions	—	37	1,042	133	—	4,942	6,154
Transfers	3,575	6,309	—	—	—	(9,884)	—
Depreciation provided during the year	(755)	(904)	(273)	(147)	(10)	—	(2,089)
At 31 December 2008, net of accumulated depreciation	16,617	7,920	1,475	301	121	—	26,434
At 31 December 2008,							
Cost	17,425	9,556	2,038	929	163	—	30,111
Accumulated depreciation	(808)	(1,636)	(563)	(628)	(42)	—	(3,677)
Net carrying amount	16,617	7,920	1,475	301	121	—	26,434
30 June 2009							
At 1 January 2009							
Cost	17,425	9,556	2,038	929	163	—	30,111
Accumulated depreciation	(808)	(1,636)	(563)	(628)	(42)	—	(3,677)
Net carrying amount	16,617	7,920	1,475	301	121	—	26,434
At 1 January 2009, net of accumulated depreciation	16,617	7,920	1,475	301	121	—	26,434
Additions	—	1,739	—	127	—	—	1,866
Disposal	—	—	—	(16)	—	—	(16)
Depreciation provided during the period	(408)	(572)	(194)	(60)	(5)	—	(1,239)
At 30 June 2009, net of accumulated depreciation	16,209	9,087	1,281	352	116	—	27,045
At 30 June 2009,							
Cost	17,425	11,295	2,038	769	163	—	31,690
Accumulated depreciation	(1,216)	(2,208)	(757)	(417)	(47)	—	(4,645)
Net carrying amount	16,209	9,087	1,281	352	116	—	27,045

The Group's properties are situated in the PRC.

As at 30 June 2009, the Group's buildings with a net book value of RMB16,209,000 were pledged to secure a revolving credit up to RMB30,000,000 from 25 July 2008 to 25 July 2011 granted by Changsha Commercial Bank. As at 30 June 2009, the Group did not maintain any loan balance with Changsha Commercial Bank.

II. NOTES TO THE FINANCIAL INFORMATION — continued

15. Lease Prepayments for Land Use Rights

	31 December		As 30 June
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Carrying amount at 1 January	—	2,484	2,427
Contribution from the owners	2,489	—	—
Recognised during the year	(5)	(57)	(28)
Carrying amount at 31 December	2,484	2,427	2,399
Less: current portion, included in prepayments, deposits and other receivables	(57)	(57)	(57)
Non-current portion	2,427	2,370	2,342

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

As at 30 June 2009, the Group's lease prepayments for land use rights of RMB2,329,000 were pledged to secure a revolving credit up to RMB30,000,000 from 25 July 2008 to 25 July 2011 granted by Changsha Commercial Bank. As at 30 June 2009, the Group did not maintain any loan balance with Changsha Commercial Bank.

16. Intangible Assets

Intangible assets comprised acquired non-patent technologies and trademarks with useful lives of 10 years. The movements of intangible assets are analysed as follows:

	Non-patent technology	Trademarks	Total
	RMB'000	RMB'000	RMB'000
31 December 2006			
Cost at 1 January 2006, net of accumulated amortisation	420	54	474
Additions	—	37	37
Amortisation	(50)	(8)	(58)
At 31 December 2006, net of accumulated amortisation	370	83	453
At 31 December 2006			
Cost	500	101	601
Accumulated amortisation	(130)	(18)	(148)
Net carrying amount	370	83	453
31 December 2007			
Cost at 1 January 2007, net of accumulated amortisation	370	83	453
Additions	—	72	72
Amortisation	(50)	(15)	(65)
At 31 December 2007, net of accumulated amortisation	320	140	460
At 31 December 2007			
Cost	500	173	673
Accumulated amortisation	(180)	(33)	(213)
Net carrying amount	320	140	460

II. NOTES TO THE FINANCIAL INFORMATION — continued

16. Intangible Assets — continued

	Non-patent technology	Trademarks	Total
	RMB'000	RMB'000	RMB'000
31 December 2008			
Cost at 1 January 2008, net of accumulated amortisation	320	140	460
Amortisation	(49)	(18)	(67)
At 31 December 2008, net of accumulated amortisation	271	122	393
At 31 December 2008			
Cost	500	173	673
Accumulated amortisation	(229)	(51)	(280)
Net carrying amount	271	122	393
30 June 2009			
Cost at 1 January 2009, net of accumulated amortisation	271	122	393
Amortisation	(25)	(9)	(34)
At 30 June 2009, net of accumulated amortisation	246	113	359
At 30 June 2009			
Cost	500	173	673
Accumulated amortisation	(254)	(60)	(314)
Net carrying amount	246	113	359

17. Inventories

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	4,856	14,893	29,929	35,606
Finished goods	1,421	9,778	43,891	8,512
Others	2,254	4,153	6,145	4,001
Total	8,531	28,824	79,965	48,119

18. Trade and Bills Receivables

The Group normally allows a credit period of not more than 90 days to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade and bills receivables are interest-free.

II. NOTES TO THE FINANCIAL INFORMATION — continued

18. Trade and Bills Receivables — continued

An aged analysis of the trade and bills receivables of the Group as at the end of each of the Relevant Periods, based on the invoice date is as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	4,737	3,521	6,267	8,079
3 to 6 months	965	1,023	—	16,372
Over 6 months	1,560	—	88	19
	7,262	4,544	6,355	24,470
Less: impairment	(1,560)	(—)	(—)	(—)
Total	5,702	4,544	6,355	24,470

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

The details of trade receivables and bills receivable as at the end of each of the Relevant Periods are as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	7,062	1,219	6,355	8,158
Bills receivable	200	3,325	—	16,312
Total	7,262	4,544	6,355	24,470

The movements in the provision for impairment of trade and bills receivables as at the end of each of the Relevant Periods, are as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January	—	1,560	—	—
Impairment loss recognised	1,560	—	—	—
Write-off	—	(1,560)	—	—
At 31 December	1,560	—	—	—

The individually impaired trade and bills receivables as at 31 December 2006 related to customers that were long outstanding over 180 days. The Group did not hold any collateral or other credit enhancements over these balances.

II. NOTES TO THE FINANCIAL INFORMATION — continued

18. Trade and Bills Receivables — continued

The aged analysis of the trade and bills receivables that are not considered to be impaired as at the end of each of the Relevant Periods is as follows:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Not past due	4,737	3,521	6,319	24,411
Within 90 days past due	965	1,023	—	40
Over 90 days past due	—	—	36	19
Total	5,702	4,544	6,355	24,470

Receivables that were neither past due or impaired relate to a large number of diversified customers for whom there were no recent history of default.

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

19. Prepayments, Deposits and Other Receivables

	31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments to suppliers	10,903	30,033	13,681	43,047
Due from related parties	543	90	18,085	82
Others	440	2,961	2,099	3,639
	11,886	33,084	33,865	46,768

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.

Included in the balance of prepayments to suppliers were advances to a supplier of RMB5,000,000 and RMB10,000,000 at 31 December 2007 and 2008 respectively. The advances bore the interest at rates ranging from 2% to 5% per annum and had no fixed term of repayment.

Included in the balance due from related parties as at 31 December 2008 was a loan of RMB18,000,000 to Hunan Xin Da Xin Joint Co., Ltd ("Xin Da Xin"), a fellow subsidiary of the Company. The loan was interest-free and had no fixed terms of repayment. The loan was fully settled in April 2009.

II. NOTES TO THE FINANCIAL INFORMATION — continued

20. Cash and Cash Equivalents

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	21,448	24,939	77,659	138,843

The Group's cash and bank balances denominated in RMB amounted to RMB21,446,000 RMB24,931,000, RMB77,653,000 and RMB138,829,000 as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively, which are not freely convertible in the international market. The remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposits rates. The carrying amounts of the cash and bank balances approximate to their fair values.

21. Trade Payables

An aged analysis of the trade payables of the Group as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	Year ended 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within two months	2,635	2,267	14,463	12,009
Over two months	120	—	17	859
	2,755	2,267	14,480	12,868

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

22. Other Payables and Accruals

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Advances from customers	20,230	38,767	31,825	36,121
Customer deposits	9,136	9,779	8,478	8,330
Due to related parties*	7,804	12,892	14,107	116,332
Accrued salary and welfare	2,610	3,946	6,718	5,065
Other tax payables	3,212	1,588	1,076	3,717
Others	2,352	4,708	7,685	19,173
	45,344	71,680	69,889	188,738

* Included in the balance as at 31 December 2006 were loans of RMB6,500,000 from Xin Da Xin, a fellow subsidiary of the Company. The loans bore interest at rates ranging from 5.58% to 7% per annum and had no fixed terms of repayment. The loans were fully repaid in November 2007.

II. NOTES TO THE FINANCIAL INFORMATION — continued

23. Interest-bearing Bank Loan

On 5 August 2008, the Group borrowed a bank loan of RMB30,000,000 from Changsha Commercial Bank. The bank loan bore interest at a monthly rate of 0.6225% and is repayable on 25 July 2009. The bank loan was secured by certain buildings and a lease prepayment for land use rights of the Group with carrying value of RMB16,617,000 and RMB2,427,000 respectively as at 31 December 2008. The carrying amount of the bank loan approximated to its fair value as at 31 December 2008. The bank loan was fully repaid on 22 June 2009.

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

24. Share Capital

The Company was incorporated in the Cayman Islands on 8 June 2009, with authorised share capital of HK$380,000 divided into 3,800,000 ordinary shares of HK$0.10 each, with one ordinary share issued and allotted to Codan Trust Company (Cayman) Limited. On the same day, the one ordinary share was transferred to Brave Leader Limited. On 17 June 2009, a total of 99 ordinary shares were allotted and issued for cash at par as to 16 ordinary shares to All Harmony Limited, 49 ordinary shares to Brave Leader Limited, 9 ordinary shares to Silver Castle and 25 ordinary shares to Ausnutria Holding Co Ltd.

On 15 September 2009, the authorised share capital of the Company was increased from HK$380,000 to HK$150,000,000 divided into 1,500,000,000 ordinary shares of HK$0.10 each.

25. Contingent Liabilities

At the end of each of the Relevant Periods, the Group did not have any significant contingent liabilities.

26. Operating Lease Arrangements

As lessor

As at the end of each of the Relevant Periods, the Group did not have future minimum lease receivables under non-cancellable operating leases.

As lessee

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

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	—	420	420	210

II. NOTES TO THE FINANCIAL INFORMATION — continued

27. Commitments

The Group had the following commitments, principally for the purchase of items of property, plant and equipment as at the end of each of the Relevant Periods:

	As at 31 December			As at 30 June
	2006	2007	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for				
Within one year	—	2,621	—	—

28. Related Party Transactions

(a) The Group had the following material transactions with related parties during the Relevant Periods:

		Year ended 31 December			Six-month period ended 30 June	
		2006	2007	2008	2008	2009
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Continuing transactions:						
Office rental expense to Changsha Xin Da Xin Real Estate Management Co., Ltd. ("Xin Da Xin Real Estate")	(i)	174	252	420	210	210
Provision of guarantee to the Group	(v)	—	—	—	—	27,328
Discontinued transactions:						
Sales of merchandise to Xin Da Xin	(ii)	36	122	52	7	51
Rental expense to Mornring	(iii)	135	123	—	—	—
Loan from Xin Da Xin	(iv)	2,000	—	—	—	—
Repayments of loans to Xin Da Xin	(iv)	3,500	6,500	—	—	—
Interest expenses	(iv)	536	493	—	—	—
Interest income	(vi)	—	—	—	—	3,286
Provision of guarantee to the Group	(vi)	—	—	—	—	160,000
Sales of merchandise to Hunan Aubrand Food Co., Ltd. ("Aubrand")	(vii)	—	—	—	—	1,846

(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 Relevant Periods, the rental expenses were 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. NOTES TO THE FINANCIAL INFORMATION — continued

28. Related Party Transactions — continued

(ii) The sales prices were determined by reference to sales prices to major customers.

(iii) The Group rents certain plants in Changsha from Mornring, a fellow subsidiary of the Company. The rental expenses were determined on mutually agreed terms at a fixed rate of RMB135,000 per annum. The plants and associated lease prepayments for land use rights with an aggregate net carrying value of RMB16,339,000 were transferred to the Group at nil consideration in November 2007.

(iv) The Group borrowed loans of RMB8,000,000 and RMB2,000,000 respectively in 2004 and 2006 from Xin Da Xin. The loans bore interest at rates ranging from 5.58% to 7% per annum and had no fixed terms of repayment. RMB3,500,000 and RMB6,500,000 were repaid in 2006 and 2007 respectively.

(v) In June 2009, the Group was granted a line of credit of US$4 million (equivalent to RMB27,328,000) by Bank of China. The line of credit was guaranteed by Xin Da Xin.

(vi) On 12 March 2009, the Group borrowed a bank loan of RMB160,000,000 from China Construction Bank. The bank loan was guaranteed by Xin Da Xin and bore an 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. The Group provided aggregate finance support of RMB143 million to Xin Da Xin in March 2009 which was fully settled in May 2009.

(vii) Aubrand, a company established in the PRC on 11 June 2008, is a 56% owned subsidiary of Mornring. In January 2009, the Group discontinued selling olive oil and disposed the remaining olive oil worth RMB1,846,000 to Aubrand at purchase cost. Aubrand is principally engaged in the sale of vegetable oil (such as olive oil and walnut oil), dairy products, rice cereal and protein powder.

In the opinion of the directors of the Company, the above related party transactions were carried out in the ordinary course of business, on normal commercial terms and in accordance with the terms of the underlying agreements entered into between the Group and the related parties.

II. NOTES TO THE FINANCIAL INFORMATION — continued

28. Related Party Transactions — continued

(b) ***Balances with related parties***

		As at 31 December			As at 30 June
		2006	2007	2008	2009
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables:					
Xin Da Xin		111	28	75	19
Prepayments, deposits and other receivables:					
Mornring		543	90	85	82
Xin Da Xin		—	—	18,000	—
Other payables and accruals:					
Mornring	(i)	—	12,540	5,540	5,540
Xin Da Xin	(ii)	7,804	352	—	80,617
Chen Yuanrong	(ii)	—	—	—	21,862
Hunan Aubrand Food Co., Ltd. ("Aubrand")	(i)	—	—	8,567	8,313

Notes:

(i) The balances due to Mornring and Aubrand at 30 June 2009 represented interest-free advances to the Group, which were fully settled in July 2009.

(ii) The balances at 30 June 2009 represented payables to Xin Da Xin and Chen Yuanrong to transfer the legal titles of their respective 59% and 16% equity interests in Ausnutria Hunan to the Group. The balances were fully settled in July 2009.

(c) ***Compensation of key management personnel of the Group***

	Year ended 31 December			Six months ended 30 June	
	2006	2007	2008	2008	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	282	575	575	248	248
Retirement benefit contributions	3	5	5	2	2
Total compensation paid to key management personnel	285	580	580	250	250

II. NOTES TO THE FINANCIAL INFORMATION — continued

29. Financial Risk Management Objectives and Policies

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

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

Interest rate risk

The Group's comprehensive income is affected by changes in interest rates due to the impact of such changes on interest expenses from interest-bearing bank loans and other interest-bearing borrowings. The Group's policy is to obtain the most favorable interest rates available. The effective interest rates and terms of repayment of other interest-bearing borrowings and the interest-bearing bank borrowings of the Group are set out in note 22 and note 23 respectively to this report. During the Relevant Periods, the Group did not have debt obligations with floating interest rates. Accordingly, the Group had no significant interest rate risk.

Liquidity risk

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

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

II. NOTES TO THE FINANCIAL INFORMATION — continued

29. Financial Risk Management Objectives and Policies — continued

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, was as follows:

	As at 31 December 2006			
	On demand	Less than three months	Three to less than 12 months	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	120	2,635	—	2,755
Other payables and accruals	14,044	5,055	193	19,292
Total	14,164	7,690	193	22,047

	As at 31 December 2007			
	On demand	Less than three months	Three to less than 12 months	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	—	2,267	—	2,267
Other payables and accruals	22,285	4,118	976	27,379
Total	22,285	6,385	976	29,646

	As at 31 December 2008			
	On demand	Less than three months	Three to less than 12 months	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loan	—	—	30,000	30,000
Trade payables	—	14,480	—	14,480
Other payables and accruals	16,924	10,913	2,433	30,270
Total	16,924	25,393	32,433	74,750

	As at 30 June 2009			
	On demand	Less than three months	Three to less than 12 months	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	—	12,868	—	12,868
Other payables and accruals	22,783	118,371	2,681	143,835
Total	22,783	131,239	2,681	156,703

Credit risk

Credit risk arises mainly from the risk of counterparties defaulting on the terms of their agreements. The carrying amounts of cash and bank balances, trade and bills receivables and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

At the end of each of the Relevant Periods, there was no significant concentration of credit risk.

II. NOTES TO THE FINANCIAL INFORMATION — continued

29. Financial Risk Management Objectives and Policies — continued

Foreign currency risk

The Group's businesses are principally located in the PRC and the Group's sales and purchases were mainly settled in RMB, even though the purchase prices of the milk powders are determined by reference to the prevailing prices of the global market at the prevailing currency of US dollars. As at the balance sheet date, all the Group's assets and liabilities were denominated in RMB, except for cash and bank balances amounting to RMB2,000, RMB8,000 and RMB6,000 and RMB14,000 denominated in foreign currencies as at 31 December 2006, 2007 and 2008 and 30 June 2009, respectively. Accordingly, there would be no material impact on the Group's profit or loss and there would be no material impact on the Group's equity from changes in exchange rates.

Capital management

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

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

The gearing ratios as at the end of each of the Relevant Periods were as follows:

	As at 31 December			As at 30 June
	2006	**2007**	**2008**	**2009**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Interest-bearing bank loan	—	—	30,000	—
Trade payables	2,755	2,267	14,480	12,868
Other payables and accruals	45,344	71,680	69,889	188,738
Less: Cash and cash equivalents	(21,448)	(24,939)	(77,659)	(138,843)
Net debt	26,651	49,008	36,710	62,763
Equity	(772)	34,994	105,548	68,220
Equity and net debt	25,879	84,002	142,258	130,983
Gearing ratio	103%	58%	26%	48%

II. NOTES TO THE FINANCIAL INFORMATION — continued

30. Notes to the Combined Statements of Cash Flows

Major non-cash transactions

(a) In November 2007, Mornring, a fellow subsidiary of the Company, transferred items of property, plant and equipment and a lease prepayment for land use rights with an aggregate net carrying value of RMB16,339,000 to the Group at nil consideration through local government authorities. A contribution from the owners of RMB13,398,000 was recorded, representing the net carrying value of items of property, plant and equipment and the lease prepayment for land use rights transferred to the Group after subtracting a tax provision of RMB2,941,000 incurred directly from the Transfer.

(b) On 15 September 2009, the Company acquired the entire issued share capital of Spring Choice Limited, a company incorporated in the British Virgin Islands, which was the then holding company of the other subsidiaries comprising the Group, through a series of share swap agreements, whereby the Company issued 144, 450, 81 and 225 common shares to All Harmony Limited, Brave Leader Limited, Silver Castle Limited and Ausnutria Holding Co., Limited, respectively, in exchange for their respective shareholding interests in Spring Choice Limited. After the share swap transactions, Spring Choice Limited was 100% owned by the Company and the Company became the holding company of the Group.

31. Net Assets of the Company

The Company was incorporated on 8 June 2009. As at 30 June 2009, other than the capital injection of HK$10 by way of cash, the Company did not have any assets and liabilities. Pursuant to the Reorganisation, the Company became the holding company of the Group on 15 September 2009.

32. Subsequent Events

Save as disclosed in note 12 and note 30(b) above, the Group did not have any other significant subsequent events.

33. Subsequent Financial Statements

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 30 June 2009.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong