AUSNUTRIA DAIRY CORPORATION LTD
澳 優 乳 業 股 份 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

Organic, Love and Future
Annual Report 2009

CONTENTS

CHAIRMAN'S STATEMENT

TO ALL SHAREHOLDERS:

I am pleased to present the first annual report of Ausnutria Dairy Corporation Ltd (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2009 after the listing of the Company.

2009 is a year of opportunity for the Group, apart from business recorded a new high since establishment, it was successfully listed on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 October 2009 and stepped out towards the goal of international capital market. The Company's shares were oversubscribed in its global offering and together with the subsequent exercise of over-allotment option, a total of 245,000,000 ordinary shares of HK$0.1 each were issued with net proceeds of fund raising amounted to approximately RMB823,115,000.

In September 2008, the paediatric milk formula of a number of large domestic dairy products manufacturers were found to contain melamine (the "Melamine Incident"), the Melamine Incident undermined consumers' confidence in paediatric milk formula produced by milk powder sourced domestically. As a result, consumers shifted their purchases from domestically sourced paediatric milk formula products to international brands and domestic brands which sourced milk powder overseas. The Group recorded a substantial increase in revenue during the year 2009 as its products are produced from high quality milk powder imported from Australia, plus the adherence to a strict quality control system over entire operations, from the sourcing of our milk powder through to production, packaging and inventory storage, and to sale and distribution, have built a very strong consumers' confidence.

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

The Group has been focusing on brand recognition as manufacturers of high quality Australian sourced products, product quality, distribution network and price, therefore, we believe that our products can compete in the high-priced and premium-priced paediatric nutrition products market. Following the Melamine Incident, the PRC government has introduced a number of regulations and measures which are aimed at controlling and improving food safety in the dairy products industry and for the purpose of regaining the confidence of consumers. The Group considers that these regulations and measures will discipline the industry with strict standards and as a whole, will be more beneficial to the Group's business development in the long run.

Listing ceremony

Organic Series

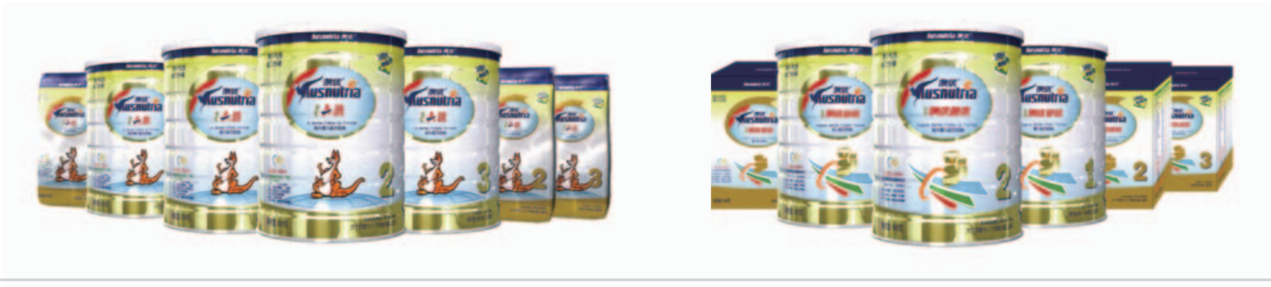
The Group will continue to launch new products which include organic products and products of brand new formula. In early 2010, selling prices of products within the industry have increased and accordingly, the Group has raised the selling prices of its products to offset the consequences brought by the increased in the cost of raw materials, this would be a good support to the results of the Group for the coming year. In addition, the Group has launched its products in Hong Kong recently and will continuously strengthen its distribution network enhance the placement of media advertising throughout the country and actively for additional quality suppliers of paediatric nutrition products with a view to develop a new series of specialty paediatric milk formula and other paediatric nutrition products.

Lastly, I would like to take this opportunity to thank the Groups' customers, suppliers and business associates for their continuous support and trust. Also heartfelt thanks to the board members of the Company, senior management and all the Group's staff for their dedication and hardwork.

Wu Yueshi
Chairman

Changsha City, China
22 April 2010

MANAGEMENT DISCUSSION AND ANALYSIS



A-choice Series　　　　Best-choice Series

BUSINESS REVIEW

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

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

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

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

A-choice Series

The A-choice Series is divided into three stages for infants and toddlers of different ages and are suitable for new born infants up to 12 months of age; for infants/toddlers aged from 6 months to 18 months and for toddlers aged from 12 months to 3 years. The formula for the A-choice Series products contains a combination of probiotics which enhances the development of healthy bacteria and encourages nutritional absorption as well as ingredients which are known to assist the infant/toddler's neurological development. The products in the A-choice Series are available in cans and aluminium foil bag packages

Allnutria Series

of different volumes to cater for the different needs of consumers. The A-choice Series products are targeted towards the high-priced paediatric milk formula market.

The sales of A-choice Series during the year have increased by approximately 1.6% over the last year and constituted 9.7% (2008: 14.6%) of the Group's total revenue. However, because of the market position of this product series, the constitution in the Group's total revenue has further decreased over the years.

Best-choice Series

The Best-choice Series is divided into 3 stages for infants and toddlers of different ages and are suitable for new born infants up to 12 months of age; for infants/toddlers aged from 6 months to 18 months and for toddlers aged from 12 months to 3 years. The Best-choice Series formula includes ingredients which are known to strengthen the infant/toddler's immune system and assists in the infant/toddler's brain development. The products in the Best-choice Series are available in cans and aluminium foil bag packages of different volumes to cater for the different needs of consumers. The Best-choice Series products are targeted towards the high-priced paediatric milk formula market.

The Best-choice Series used to be the Group's top selling series in the past, the sales during the year have increased by approximately 46.3% over the last year and constituted 40.8% (2008: 42.9%) of the Group's total revenue. Due to the satisfactory sales performance of another series, Allnutria Series, as set out below, as such, the constitution of this series in the Group's total revenue has slightly dropped during the year.

Allnutria Series

The Allnutria Series, which was jointly developed by the Group and Tatura, is divided into 4 stages for infants/toddlers of different ages and suitable for new born infants up to 100 days of age; for infants aged from 100 days to 180 days; for infants aged from 180 days to 360 days and for toddlers aged from 360 days and upwards.

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

Other Products

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

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

Branding and Marketing

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

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

FINANCIAL REVIEW

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

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

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

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

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the year, except for the Group's reorganisation for the preparation of listing as set out in the Accountants' Report of Appendix I to the prospectus (the "Prospectus") issued on 24 September 2009, there were no material investments and acquisitions and disposals of subsidiaries.

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group intends to explore investment opportunities in order to secure its milk powder supplies by way of upward integration with potential milk powder suppliers in the PRC, Australia or elsewhere. At the date of this report, we have not entered into any legally binding agreement or arrangement with respect to the upward integration opportunities mentioned above. However, the Group has identified an investment opportunity and is currently in discussions with an overseas organisation about our potential investment in its milk powder production operations and will publicly announce as and when appropriate.

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGE OF ASSETS

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

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

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

CAPITAL STRUCTURE, CURRENT RATIO AND CURRENT RATIO

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions.

During the year, the Group generated a net increase in cash and cash equivalents of approximately RMB1,388,438,000, of which, approximately RMB823,115,000 were net proceeds from Global offering. As at 31 December 2009, the Group's had a balance of cash and cash equivalents amounted to RMB1,465,887,000, of which were RMB555,444,000 (2008: RMB77,653,000) denominated in RMB.

The Group's had an interest-bearing bank loan of RMB350,000,000 at the end of 2009 and was repaid in January 2010. The bank loan bore interest at a fixed monthly rate of 0.4425% and was made and repaid in RMB.

As substantially all of the Group's businesses are denominated in RMB, the Group did not have any financial instruments held for hedging purposes.

As at 31 December 2009, the Group's current liabilities amounted to approximately RMB546,529,000 (2008: RMB121,493,000). The net assets value per share of the Group was approximately RMB1.03 as at 31 December 2009. The Group's current ratio, which is total current assets divided by total current liabilities, was approximately 2.92 (2008:1.63) and the gearing ratio, which is net debt divided by the total equity plus net debt, was approximately negative 599% and was mainly due to the global offering proceeds received in October 2009 (2008: positive 26%).

INTEREST AND FOREIGN EXCHANGE RISK

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

Substantially all of the Group's businesses are denominated in RMB, which is the Group's functional currency. At the reporting date, the Group had bank balances of RMB910,443,000 denominated in HK$. The fluctuations in foreign exchange rate between RMB and HK$ may have material impact on the Group's equity.

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. The Group seeks to maintain strict control over its outstanding receivables and closely monitors the collection to minimise credit risk. As the Group's exposure spreads over a diversified portfolio of customers, there is no significant concentration of credit risk.

The carrying amounts of cash and cash equivalents, trade receivables, other receivables and other financial assets, represent the Group's maximum exposure to credit risk in relation to the Group's other financial assets.

CAPITAL COMMITMENTS

As at 31 December 2009, the Group had no capital commitments (2008: nil).

CONTINGENT LIABILITIES

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

USE OF PROCEEDS

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

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

a) to explore and undertake potential investment opportunities for investing in or acquiring upstream milk powder related assets and/or operations;
b) to expand our distribution network and strengthen our brand building, marketing and promotional initiatives;
c) for enhancing our research and development efforts;

d) for complementing our efforts in introducing our new series of organic paediatric nutrition products and new products, and further expanding the range and quality of this series of products;
e) to establish two new production lines for the production of our paediatric milk formula products and to construct a new storage warehouse; and
f) for general working capital purposes.

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

EMPLOYEES

As at 31 December 2009, the Group employed approximately 307 (2008: 185) employees. The increase in the number of employees was due to the expansion of the Group's business to cope with business promotion and market exploration. The salary levels of employees are determined by their performance, qualifications, experience and contribution to the Group with reference to general market trend.

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent non-executive Directors

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

COMPANY SECRETARIES

Ms. Ng Siu Hung
Mr. Li Wing Sum, Steven *FCCA, FCPA, FTIHK*

AUTHORISED REPRESENTATIVES

Ms. Ng Siu Hung
Mr. Li Wing Sum, Steven

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDITORS

Ernst & Young
Certified Public Accountants

COMPLIANCE ADVISER

China Merchants Securities (HK) Co., Ltd

LEGAL ADVISER (As to Hong Kong law)

Mallesons Stephen Jaques

REGISTERED OFFICE

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

HEADQUARTER

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Changsha City, Hunan Province, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

STOCK CODE

1717

DIRECTORS' AND SENIOR MANAGEMENTS' BIOGRAPHIES

Biographical details of the directors ("Directors") and the senior management of the Company are set out below:

DIRECTORS

Executive Directors

Mr. Wu Yueshi ("Mr. Wu"), aged 52, became our executive Director and Chairman on 8 June 2009. Mr. Wu is a shareholder and director of Brave Leader Limited ("Brave Leader"), and Ausnutria Holding Co Ltd ("Ausnutria BVI"), the substantial shareholders of the Company and Silver Castle International Limited ("Silver Castle"), a shareholder of the Company. He is a director of the Company's subsidiaries, namely Ausnutria Dairy Company Limited ("Ausnutria Hong Kong"), Ausnutria Dairy (HK) Company Limited ("Ausnutria (HK)"), Ausnutria Australia Dairy Pty Ltd. ("Ausnutria Australia"), Ausnutria Hunan and Spring Choice Limited ("Spring Choice"). Mr. Wu joined our Group at the establishment of Ausnutria Hunan in September 2003. He is primarily responsible for the overall corporate strategy, planning and business development of our Group. Mr. Wu completed a Master of Business Administration program at the International College of Beijing University, and obtained the Executive Master's of Business Administration degree from Fordham University. Prior to joining our Group, he was employed by the Labour Department of Hunan Province (湖南省勞動廳), and was a director and the chief executive officer of Hunan Ava Seed Co., Ltd* (湖南亞華種業股份有限公司) ("Hunan Ava Seed"), a company whose shares are listed on the Shenzhen Stock Exchange. Mr. Wu is presently the chairman and a director of Changsha Xin Da Xin Group Company* (長沙新大新集團有限公司) which changed its name to Changsha Xin Da Xin Vilmorin Agri-Business Co., Ltd* (長沙新大新威邁農業有限公司) ("Changsha Xin Da Xin Group") and also the vice chairman of the Chamber of Commerce and Industry (Hunan)* (湖南省工商業聯合會). Since 2004 until now, Mr. Wu is the chairman and director of Yuan Longping High-tech Agriculture Co., Ltd* (袁隆平農業高科技股份有限公司) ("Longping High-tech"), a company whose shares are listed on the Shenzhen Stock Exchange.

Mr. Yan Weibin ("Mr. Yan"), aged 44, became our executive Director on 8 June 2009. Mr. Yan is a shareholder and director of Brave Leader, Silver Castle and Ausnutria BVI. He is also a director of Ausnutria Hong Kong, Ausnutria (HK), Ausnutria Australia, Ausnutria Hunan and Spring Choice. He joined our Group since the establishment of Ausnutria Hunan in September 2003. Mr. Yan is primarily responsible for the overall corporate strategy, planning and business development of our Group. Mr. Yan graduated from Hunan University with a degree in Bachelor of Engineering and MBA. He was a director of Changsha Xin Da Xin Real Estate Company* (長沙新大新新置業有限公司), a director and the vice president of Hunan Ava Seed, and the chief executive officer and director of Ausnutria Hunan and Changsha Xin Da Xin Group. Mr. Yan is the chief executive officer of Longping High-tech since 2004.

Mr. Chen Yuanrong ("Mr. Chen"), aged 50, became our executive Director and chief executive officer on 8 June 2009. Mr. Chen is a shareholder and director of the Company's substantial shareholder, All Harmony International Limited. He is also a director of Ausnutria Hong Kong, Ausnutria (HK), Ausnutria Hunan and Spring Choice. Mr. Chen joined our Group in December 2003 as the director and chief executive officer of Ausnutria Hunan. He is primarily responsible for the day-to-day management and operation of the Group. Mr. Chen has taken a business administration course at University of Helsinki. He was employed as the deputy general manager of Hunan Nanshan Dairy Farm* (湖南省南山牧場), the general manager of Nanshan Green Food Development Co., Ltd (南山綠色食品(乳品)開發總公司), a director, an assistant to the president and an asset controller of Hunan Ava Holding Co., Ltd.* (湖南亞華種業股份有限公司), the general manager of Hunan Ava Nanshan Dairy product branch* (湖南亞華南山乳品分公司) and Nanshan Dairy Marketing Company* (南山乳業營銷有限公司). Mr. Chen has substantial experience in cattle breeding, management of cattle farm, production and marketing of dairy products and its business management.

Ms. Ng Siu Hung ("Ms. Ng"), aged 41, became our executive Director on 19 September 2009. Ms. Ng is primarily responsible for investor relations and the Group's public announcements. She studied Applied English Language at Changsha University and graduated at The University of Westminster, the United Kingdom with a Master's of Arts degree in Human Resource Management. She was the representative of a computer network company and then, a manager of a trading company for about 2 years. From 2004 to present, Ms Ng is a director of Hunan Yukai Real Estate Development Co., Ltd* (湖南宇凱房地產有限公司). She is the officer of Public Relations of Changsha Xin Da Xin Group.

Independent non-executive Directors

Mr. Qiu Weifa ("Mr. Qiu"), aged 65, became an independent non-executive Director on 19 September 2009. Mr. Qiu graduated from the Central University of Finance and Economics* (中央財政金融學院) and has senior economist qualifications* (高級經濟師). Mr. Qiu was the vice general manager of the Bank of China (Singapore branch), the alternate general manager of the Bank of Guangdong province (Singapore branch) and the head of branch (行長) of the Bank of China (Hunan province branch). He has over 30 years of experience in the banking sector, holding management positions at various banking institutions.

Mr. Jason Wan ("Mr. Wan"), aged 46, became an independent non-executive Director on 19 September 2009. Mr. Wan completed a Doctor of Philosophy (PhD) Degree at Deakin University, Australia and prior to that, he graduated with a Bachelor of Science at Hunan Agricultural University and a Master of Science in dairy science and processing at Northeast Agricultural University. Mr. Wan was a lecturer in the department of food science and technology at the Northeast Agricultural University, a visiting scientist at the Food Research Institute at the Department of Agriculture in Victoria, Australia, a post-doctoral researcher in the department of biochemistry at the University of Melbourne and a senior research scientist at CSIRO Food Science Australia. Since July 2009, he has been a research professor in food microbiology and biotechnology at the Illinois Institute of Technology, USA. Mr. Wan has extensive knowledge and expertise in the areas of processing technologies for food safety, dairy processing and the functionality of various ingredients of dairy products, and he has written many articles over the years and has also received numerous scholarships and research grants.

Mr. Chan Yuk Tong ("Mr. Chan"), aged 47, became an independent non-executive Director on 19 September 2009. Mr. Chan graduated from the University of Newcastle in Australia with a bachelor's degree in Commerce, and from the Chinese University of Hong Kong with a master's degree in business administration. Mr. Chan is a practising fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Mr. Chan was an audit principal at Ernst & Young and a finance director and sales director at G2000 (Apparel) Limited in 2000. Mr. Chan has over 22 years in auditing, accounting, managerial and financial consultation experience. His appointments as executive director, non-executive director or independent non-executive director of publicly listed companies are as follows:

Listed Company	Role	Period
Asia Cassava Resources Holdings Limited	Executive director	July 2008 to present
Vitop Bioenergy Holdings Limited	Executive director	September 2005 to February 2008
	Non-executive director	February 2008 to present
Sichuan Xinhua Winshare Chainstore Co., Ltd	Independent non-executive director	April 2006 to present
Jia Sheng Holdings Limited	Independent non-executive director	November 2006 to present

Listed Company	Role	Period
Daisho Microline Holdings Limited	Independent non-executive director	September 2004 to present
Kam Hing International Holding Limited	Independent non-executive director	July 2005 to present
BYD Electronic (International) Company Limited	Independent non-executive director	November 2007 to present
Anhui Conch Cement Company Limited	Independent non-executive director	June 2007 to present
Global Sweeteners Holdings Limited	Independent non-executive director	June 2008 to present
China Pipe Group Limited	Independent non-executive director	January 2007 to July 2007

SENIOR MANAGEMENT

Mr. Xiao Shihu ("Mr. Xiao"), aged 35, is the chief operating officer of Ausnutria Hunan. He joined our Group shortly after the establishment of Ausnutria Hunan. Mr. Xiao graduated from the Huazhong Institute of Science and Technology* (華中科技大學) with a degree in Master of Economics. Mr. Xiao has 13 years of experience in this industry at dairy products marketing, operations management and strategies since 1997. From December 2003 to present, he is the director of marketing of our Group and is primarily responsible for all marketing activities of our Group.

Mr. Dai Lianyu ("Mr. Dai"), aged 41, is the chief financial officer of Ausnutria Hunan. He joined our Group on 27 December 2005. Mr. Dai graduated from Hunan Finance and Economy College* (湖南財經學院) and is a chartered accountant. From April 2005 to December 2005, Mr. Dai was employed at Changsha Xin Da Xin Group Company* (長沙新大新集團有限公司) as the vice manager in the auditing department. From February 2006 to present, he is the chief financial controller of Ausnutria Hunan and is primarily responsible for overseeing the financial affairs of the Group. He has approximately 4 years of experience in the industry.

Mr. Liu Yuehui ("Mr. Liu"), aged 46, is the vice president of Ausnutria Hunan. He joined our Group shortly after the establishment of Ausnutria Hunan on 26 December 2003. Mr. Liu studied dairy techniques at the Inner Mongolia Light Manufacturing School* (內蒙古輕工業學校). Mr. Liu has held management positions in various dairy factories and has approximately 9 years of experience in the industry. During January 2001 to October 2003, Mr. Liu was the assistant of the chief executive officer of Hunan Ava Nanshan Dairy Products Company Limited* (湖南亞華南山乳品營銷有限公司), a company owned by Hunan Ava Holding Co. Ltd.* (湖南亞華種業股份有限公司) at the time, and established in the PRC whose shares are listed on the Shenzhen Stock Exchange. From 2003 to present, Mr. Liu is the vice president of Ausnutria Hunan and is primarily responsible for recruitment, human resourcing, development and administrative functions of our Group.

Mr. Dai Zhiyong ("Mr. Dai"), aged 35, is the chief engineer of Ausnutria Hunan. He joined our Group shortly after the establishment of Ausnutria Hunan on 26 December 2003. Mr. Dai graduated from Xiang Tan University* (湘潭大學) with a degree in Bachelor of Chemistry. Mr. Dai held a management position in a dairy products company for a few years and has 10 years of experience in the industry. Mr Dai was employed by Hunan Ava Nanshan Dairy Products Company Limited* (湖南亞華南山乳業有限公司) as the vice factory manager, the person in charge of the research and development department and engaged in milk powder research and development works of Inner Mongolia Ya Ke Shi Ru Factory* (內蒙古牙克石乳品廠). Mr. Dai is the chief engineer of Ausnutria Hunan, primarily responsible for managing the daily operations of the technical department of our Group and for ensuring the overall compliance status of the Group's new products and their development.

Mr. Li Wei ("Mr. Li"), aged 33, is the production officer and the general manager of the production department of our group. He joined our Group shortly after the establishment of Ausnutria Hunan on 26 December 2003. Mr. Li graduated from Hunan Agriculture University* (湖南農業大學) with a degree in Bachelor of Food Technique. Prior to joining our Group, Mr. Li held management positions at a dairy products company. Mr. Li has 8 years of experience in the dairy industry. He was employed by Hunan Ava Nanshan Dairy Products Company Limited* ("Hunan Ava Nanshan") (湖南亞華南山乳品營銷有限公司) as the supervisor of the quality control centre, the external supervisor for quality control and the external vice department head. From December 2003 to present, he is the general manager of the production department of our Group and is primarily responsible for managing the quality, logistics and production at Ausnutria Hunan.

Mr. Yang Mingqing ("Mr. Yang"), aged 44, is the assistant to the chief executive officer of the finance department. Mr. Yang graduated from Hunan Forestry School* (湖南省林業學校). He joined our Group shortly after the establishment of Ausnutria Hunan on 26 December 2003. Prior to joining our Group, Mr. Yang was in charge of the accounting department of various companies and has 9 years of experience in this industry. He was employed by Hunan Ava Nanshan as the chief accountant of the finance department. From September 2003 to present, he has been the department manager as well as the assistant to the chief executive officer and general manager of the finance department of Ausnutria Hunan and is primarily responsible for accounting and financial matters relating to our Group.

Mr. Qu Zhishao ("Mr. Qu"), aged 32, is the sales officer of Ausnutria Hunan. He joined Ausnutria Hunan since its incorporation and was the marketing supervisor, district manager, assistant to chief executive officer and sales officer of the southern district. Mr. Qu holds a Bachelor degree of Arts from Xiang Tan University* (湘潭大學) and has engaged in dairy advertising strategy, sales planning, and management in marketing and sales since 2001 with ten years of experience in the related industry.

COMPANY SECRETARIES

Ms. Ng Siu Hung ("Ms. Ng"), aged 41, is a joint company secretary. She works for our Company on a fulltime basis. Ms. Ng's biographical details are set out under the section headed "Directors' and Senior Management's Biographies – Directors – Executive Directors" above.

Mr. Li Wing Sum Steven ("Mr. Li"), aged 53, is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. Mr. Li was appointed as a joint company secretary on 19 September 2009. Mr. Li has over 25 years' experience in auditing, accounting, company secretarial services, taxation and financial management. Mr. Li had worked in an international accounting firm and had been employed as financial controller of various companies including a Hong Kong listed company as well as a multinational organisation. Mr. Li was an independent non-executive director and an executive director of Dynamic Global Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange, from 9 September 2004 to 6 July 2005 and from 6 January 2006 to 30 June 2009 respectively. Since July 2000, Mr. Li has been the Qualified Accountant and the Company Secretary of Shanghai Fudan Microelectronics Company Limited, a company whose shares are listed on the Growth Enterprises Market of the Stock Exchange.

* *For identification purposes only.*

CORPORATE GOVERNANCE REPORT

Directors' Responsibility on the Financial Statements

The Directors of the Company acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2009, which were prepared in accordance with statutory requirements and applicable accounting standards.

The reporting responsibilities of the external auditor on the financial statements are set out in the "Independent Auditors' Report" on pages 31 to 32.

Corporate Governance Practices

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "CCGP") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). In the opinion of the Directors, the Company has complied with the code provisions set out in the CCGP throughout the year.

Compliance of Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code")

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the directors have confirmed that they have complied with the Model Code throughout the reporting period.

Board of Directors and Board Meeting

BOARD OF DIRECTORS

The board of directors (the "Board") comprises four executive Directors and three independent non-executive Directors. The Board members have no financial, business, family or other material/relevant relationships with each other. The Board's composition is formed to be well balanced to ensure strong independence exists across the Board. The biographies of the Directors are set out on pages 12 to 17, with details of diversity of skills, expertise, experience and qualifications concerning the Directors.

The Board is responsible for the leadership and management of the Group's businesses as well as its strategic planning and performances. The management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the board committees. Details of these committees are set out in this report.

The Board comprises of chairman, executive Directors and independent non-executive Directors and has been disclosed in all the Company's announcements, circulars and website.

BOARD MEETINGS

The Board usually holds 4 full board meetings in each year and meets as and when required. Up to date of this report, one board meeting was held and the attendance of the Directors at the board meeting was as follows:

	Number of attendance
Executive Directors	
Mr. Wu Yueshi *(Chairman)*	1/1
Mr. Yan Weibin	1/1
Mr. Chen Yuanrong *(Chief Executive Officer)*	1/1
Ms. Ng Siu Hung	1/1
Independent non-executive Directors	
Mr. Qiu Weifa	1/1
Mr. Jason Wan	1/1
Mr. Chan Yuk Tong	1/1

The Directors will receive details of agenda items for decision and minutes of board meetings in advance of each board meeting.

Board minutes are kept by the Company Secretary of the Company and are sent to the Directors for records and are open for inspection by the Directors.

Chairman and Chief Executive Officer

The Company has, since the early stage of its incorporation, segregated the duties of the Chairman of the Board and the Chief Executive Officer. The Chairman of the Board and the Chief Executive Officer are separately held by Mr. Wu Yueshi and Mr. Chen Yuanrong in order to preserve independence and have a balanced judgement of views. The Chairman of the Board has the responsibilities to lead the Board and make sure it works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. The Chief Executive Officer has the responsibilities to manage and execute the Group's business directions and operation decisions. In addition, the Board also comprises of independent non-executive Directors who can provide the Board with independent judgements, knowledge and experience.

Executive Directors

The four executive Directors have entered into service contracts with the Company for a term of 3 years commencing on 8 October 2009 up to 7 October 2012.

Independent non-executive Directors

The three independent non-executive Directors have entered into service contracts with the Company for 2 years commencing on 8 October 2009 up to 7 October 2011.

The Company has received annual confirmations of independence from the three independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules and considers them to be independent.

Remuneration of Directors

The Company has set up a remuneration committee which consists of one executive Director, Mr. Wu Yueshi (Chairman) and three independent non-executive Directors, Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong.

The primary duties of the remuneration committee are to consider and recommend to the Board the emoluments and other benefits paid by us to our Directors and to assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of talented individuals.

Up to the date of this report, one meeting of the remuneration committee was held and details of the attendance were as follows:

Committee member	**Number of attendance**
Mr. Wu Yueshi	1/1
Mr. Qiu Weifa	1/1
Mr. Jason Wan	1/1
Mr. Chan Yuk Tong	1/1

The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the executive Directors and considered that the existing terms of employment contracts of the executive Directors are fair and reasonable.

Appointment, re-election and removal of Directors

Subject to article 84 of the Company's articles of association, directors shall be elected at the general meeting each for a term of not more than 3 years and one-third of the directors shall retire from office at the annual general meeting. Every director (including directors with fixed terms of appointment) shall be subject to retirement by rotation at least once every 3 years; and that any director appointed as an addition or to fill a casual vacancy on the Board shall be subject to re-election by shareholders at the first general meeting after his appointment.

The Company has established a nomination committee which comprises one executive Director, Mr. Wu Yueshi (Chairman) and three independent non-executive Directors Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong. The primary duties of the nomination committee are to formulate the nomination procedures and standards for candidates for Directors and senior management, to conduct preliminary review of the qualifications and other credentials of the candidates for Directors and senior management and to recommend suitable candidates for Directors and senior management to the Board.

Up to date of this report, one meeting of the nomination committee was held and details of the attendance were as follows:

Committee member	**Number of attendance**
Mr. Wu Yueshi	1/1
Mr. Qiu Weifa	1/1
Mr. Jason Wan	1/1
Mr. Chan Yuk Tong	1/1

Auditors' Remuneration

For the year ended 31 December 2009, apart from the provisions of annual audit services, the Group's external auditors, Ernst & Young, were also the reporting accountants of the Company in relation to the listing. For the year ended 31 December 2009, the total fee paid/payable in respect of audit and non-audit services provided by the Group's external auditors is set out below:

	RMB'000
Audit services	
Annual audit services	900
Reporting accountants in relation to the listing	3,728
Non-audit services	
Tax and internal control advisory services	355

The audit committee is responsible for making recommendation to the Board as to the appointment, re-appointment and removal of the external auditors, which is subject to the approval by the Board and at the general meetings of the Company by the Shareholders.

Audit Committee

The Company has an audit committee which was established with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules. The primary duties of the audit committee are to provide our Board with an independent review of the effectiveness of the financial reporting process, internal control and risk management of our Group, to oversee the audit process and to perform other duties and responsibilities stated in the written terms of reference. The audit committee comprises three independent non-executive Directors, Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong (Chairman).

The Company's and the Group's financial statements for the year ended 31 December 2009 have been reviewed by the audit committee.

The audit committee members are well experienced in management, accounting, finance, commercial and industrial sectors.

The audit committee held one meeting up to date of this report and details of its attendance are as follows:

Committee member	**Number of attendance**
Mr. Qiu Weifa	1/1
Mr. Jason Wan	1/1
Mr. Chan Yuk Tong	1/1

Full minutes of audit committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the audit committee meetings were sent to all members of the committee for their comments and records respectively within a reasonable time after the meeting.

The audit committee meets the external auditors at least once a year to discuss issues concerning the statutory audit. The audit committee reviews the quarterly, interim and annual reports before submission to the Board. The committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Group's interim and annual reports.

Internal Control

The Company and its subsidiaries have to conduct at least annually a review of its system of internal control to ensure the effectiveness and adequacy of internal control system including finance, operations and risk management. The reports and findings prepared by the internal audit team have to be circulated to the relevant committee delegated by the Board. If necessary, the internal audit team will submit their findings and the proposed audit plan to the audit committee for its approval. A review of system of internal control has been undergone during the year under review and the Directors are satisfied that the Group has maintained sound and effective internal controls.

Shareholders' Relations

The Company has published all of its announcements on time in accordance with the Listing Rules. In addition to the participation of analyst meetings to liaise with shareholders, the Company also provides the most updated information on its website to maintain a different communication channel with its shareholders. Besides, all executive Directors will present in the forthcoming annual general meeting of the Company to communicate and answer to the questions raised by shareholders and significant issues will be put as separate proposed resolutions.

REPORT OF THE DIRECTORS

The directors (the "Directors") present their report and the audited financial statements of Ausnutria Dairy Corporation Ltd (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009.

Principal activities

The Company acts as an investment holding company of the Group. The Group is principally engaged in the production, marketing and distribution of high-priced and premium-priced paediatric milk formula products in the People's Republic of China (the "PRC"). Details of the principal activities of the Company's subsidiaries are set out in note 18. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 87.

The Directors recommend the payment of a final dividend of HK$6 cents per ordinary share in respect of the year.

Summary financial information

A summary of the published results and assets and liabilities of the Group for the last four financial years as extracted from the audited financial statements and the prospectus of the Company issued on 24 September 2009 (the "Prospectus") is set out on page 88. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

Additions to property, plant and equipment of the Group for the year ended 31 December 2009 amounted to approximately RMB3.0 million. Details of the movements during the year in the Group's property, plant and equipment are set out in note 15 to financial statements of this annual report.

According to the property valuation report as set out in Appendix IV to the Prospectus, the aggregated valuation amount of the Group's building and lease payments for land use rights were approximately RMB54.1 million as at 31 July 2009, whereas the building and lease prepayment for land use rights of the Group were stated at cost less accumulated depreciation or amortisation in the Accountants' Report attached as Appendix I to the Prospectus with aggregated carrying values of approximately RMB18.6 million as at 30 June 2009. The additional aggregated depreciation and amortisation that would have been charged against the consolidated statement of comprehensive income for the year ended 31 December 2009 had the building and lease prepayment for land use rights been stated at the valuation amount amounted to approximately RMB1.1 million.

Share capital

Details of movements in the Company's authorized or issued share capital during the year are set out in note 26.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, redemption or sale of listed securities of the Company

Except for the global offering, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 December 2009, the Company's accumulated losses amounted to RMB409,000. In addition, the Company's share premium account, in the amount of RMB675,843,000 may be distributed in the form of a future capitalisation issue and/or dividend.

Major customers and suppliers

In the year under review, sales to the Group's five largest customers accounted for less than 28.7% of the total sales for the year and sales to the largest customer included therein amounted to 8.7%. Purchases from the Group's five largest suppliers accounted for 92.3% of the total purchases for the year and purchases from the largest supplier included therein amounted to 81.5%.

None of the Directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers and 5 largest customers.

Directors

The Directors of the Company during the year were:

Executive Directors	
Mr. Wu Yueshi	(appointed on 8 June 2009)
Mr. Yan Weibin	(appointed on 8 June 2009)
Mr. Chen Yuanrong	(appointed on 8 June 2009)
Ms. Ng Siu Hung	(appointed on 19 September 2009)
Independent non-executive Directors	
Mr. Qiu Weifa	(appointed on 19 September 2009)
Mr. Jason Wan	(appointed on 19 September 2009)
Mr. Chan Yuk Tong	(appointed on 19 September 2009)

In accordance with article 84 of the Company's amended articles of association, the directors shall be elected at the general meeting each for a term of not more than three years. One-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office at the annual general meeting (the "AGM"). Every director (including directors with fixed terms of appointment) shall be subject to retirement by rotation at least once every three years. Any person appointed as a director either to fill a casual vacancy or as an addition to the board of directors shall be subject to election by shareholders at the first general meeting after the appointment. Mr. Wu Yueshi, Mr. Yan Weibin and Mr. Chen Yuanrong will retire by rotation at the conclusion of the forthcoming AGM and being eligible, offer themselves for re-election. An ordinary resolution approving their re-elections will be proposed at the forthcoming AGM.

The Company has received annual confirmations of independence from the three independent non-executive Directors, in accordance with Rule 3.13 of the Listing Rules and considers them to be independent.

Directors' and senior management's biographies

Biographical details of the Directors of the Company and the senior management of the Group are set out in the section headed "Directors' and Senior Management's Biographies" of this report.

Directors' service contracts

The four executive Directors have entered into service contracts with the Company for a term of 3 years commencing on 8 October 2009 up to 7 October 2012.

The three independent non-executive Directors have entered into service contracts with the Company for two years commencing 8 October 2009 up to 7 October 2011.

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' remuneration

The Directors' salaries are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of Directors with reference to Directors' duties, responsibilities and performance and the results of the Group.

Directors' interests in contracts

Save for the related party transactions set out in note 32, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the year.

Directors' interests and short positions in shares and underlying shares

As at 31 December 2009, the interests and short positions of the Directors of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Appendix 10 to the Listing Rules, were as follows:

Long positions in shares/underlying shares of the Company

Name	Number of Ordinary Share	Nature of Interest	Percentage of issued share capital
Mr. Wu Yueshi ("Mr. Wu")(i)	593,000,000	Interest of controlled corporation	56.75%
Mr. Chen Yuanrong ("Mr. Chen")(ii)	107,000,000	Interest of controlled corporation	10.24%
Mr. Yan Weibin ("Mr. Yan")(iii)	200,000,000	Interest of controlled corporation	19.14%

Notes:

(i) The equity interest of Mr. Wu is being held through Brave Leader Limited ("Brave Leader"), Silver Castle International Limited ("Silver Castle") and Ausnutria Holding Co Ltd ("Ausnutria BVI").

(ii) The equity interest of Mr. Chen is being held through All Harmony International Limited ("All Harmony").

(iii) The equity interest of Mr. Yan is being held through Brave Leader, Silver Castle and Ausnutria BVI.

Save as disclosed above, as at 31 December 2009, none of the Directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Appendix 10 to the Listing Rules.

Directors' rights to acquire shares or debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Substantial shareholders' and other persons' interests in shares and underlying shares

As at 31 December 2009, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares/underlying shares of the Company

Name	Number of Ordinary Share	Nature of Interest	Percentage of issued share capital
All Harmony[(1)]	107,000,000	Registered owner	10.24%
Brave Leader[(2)]	333,000,000	Registered owner	31.87%
Silver Castle[(3)]	60,000,000	Registered owner	5.74%
Ausnutria BVI[(4)]	200,000,000	Registered owner	19.14%
Mr. Chen[(1)]	107,000,000	Interest of controlled corporation	10.24%
Mr. Wu[(2,3,4)]	593,000,000	Interest of controlled corporation	56.75%
Ms. Xiong Fanyi ("Mrs. Y Wu")[(5)]	593,000,000	Family interest	56.75%
JP Morgan Chase & Co.	81,616,000	Investment manager	7.81%
FMR LLC	52.856.000	Investment manager	5.06%

Note:

1. All Harmony is owned as to 49.22% by Mr. Chen and 20 former and present employees of our Group.

2. Brave Leader is owned as to 59.57% by Mr. Wu, 30.67% by Ms. Wu Xing Xing ("Ms. X Wu"), the elder sister of Mr. Wu and 9.76% by Mr. Yan.

3. Silver Castle is owned as to 59.57% by Mr. Wu, 30.67% by Ms. X Wu and 9.76% by Mr. Yan.

4. Ausnutria BVI is owned as to 60% by Mr. Wu, 30% by Mr. Yan and 10% by Mrs. Y Wu.

5. Mrs. Y Wu is the spouse of Mr. Wu and is deemed to be interested in the Shares held by Mr. Wu, Brave Leader, Silver Castle and Ausnutria BVI pursuant to the SFO.

Save as disclosed above, as at 31 December 2009, no person, other than the Directors of the Company, whose interests are set out in the section headed "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Connected transactions and continuing connected transactions

Details of the connected transactions of the Group are set out in note 32. The continuing connected transactions are exempt continuing connected transactions under Chapter 14A of the Listing Rules.

The independent non-executive Directors of the Company have reviewed the continuing connected transactions of the Group and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favorable to the Group than terms available to independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have performed procedures in respect of the transactions in accordance with Hong Kong Standard on Related Services 4400 *Engagements to Perform Agreed Upon Procedures Regarding Financial Information*. Based on the work performed, the auditors of the Company have provided a letter and confirmed that the aforesaid continuing connected transactions (i) have been approved by the board of directors of the Company; (ii) are in accordance with the pricing policies of the Group; (iii) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and (iv) have not exceeded the caps as exempted continuing connected transactions.

In respect of the related party transactions as set out in note 32, the Company has complied with the relevant requirements under Chapter 14A of the Listing Rules.

Directors' interests in a competing business

During the year and up to date of this report, none of the Directors of the Company had an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

Compliance Advisors

Pursuant to the compliance advisor agreement dated 23 September 2009 entered into between China Merchants Securities (HK) Co., Limited ("CMS") and the Company, CMS received and will receive fees for acting as the Company's compliance advisor for the period commencing on the Listing Date and ending on the date which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial result for the first full financial year after the Listing Date.

Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Code on Corporate Governance Practices

In the opinion of the Directors, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 10 to the Listing Rules throughout the accounting period covered by the annual report.

A report on the principle corporate governance practices adopted by the Company were set out in the section headed "Corporate Governance Report" of the annual report.

Events after the reporting period

Save as the repayment of a bank loan of RMB350,000,000 disclosed in note 25 to the financial statements, the Group also had the following event after the reporting period:

On 24 March 2010, Ausnutria Hunan entered into an entrusted fund management agreement (the "Agreement") with Hunan Trust and Investment Co., Ltd. ("Hunan Trust"), an independent third party, pursuant to which, Ausnutria Hunan entrusted Hunan Trust a fund of RMB200,000,000 to purchase a loan product (the "Loan Product") from Hunan Provincial Expressway Construction and Development Co., Ltd., an independent third party. The Loan Product is unsecured, bore interest at a rate of 5% per annum and will mature on 17 March 2011.

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Wu Yueshi
Chairman

Changsha City, China
22 April 2010

Ernst & Young
安 永

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

To the shareholders of Ausnutria Dairy Corporation Ltd
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Ausnutria Dairy Corporation Ltd (the "Company") and its subsidiaries (collectively the "Group") set out on pages 33 to 87, which comprise the consolidated and company statements of financial position as at 31 December 2009, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2009, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

22 April 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
REVENUE	5	**623,777**	405,166
Cost of sales		**(315,530)**	(259,163)
Gross profit		**308,247**	146,003
Other income and gains	5	**6,898**	836
Selling and distribution costs		**(91,947)**	(56,628)
Administrative expenses		**(10,565)**	(9,162)
Other expenses		**(41)**	(695)
Finance costs	6	**(4,184)**	(859)
Profit before tax	7	**208,408**	79,495
Income tax expense	11	**(26,288)**	(8,966)
PROFIT FOR THE YEAR		**182,120**	70,529
Other comprehensive income			
Exchange difference on translating foreign operations		**(210)**	25
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**181,910**	70,554
Profit attributable to:			
Owners of the parent	12	**182,120**	70,529
Total comprehensive income attributable to:			
Owners of the parent		**181,910**	70,554
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– basic and diluted (RMB)	14	**21.3 cents**	8.8 cents

Details of the dividends payable and proposed for the year are disclosed in note 13 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**26,934**	26,434
Lease prepayments for land use rights	16	**2,313**	2,370
Intangible assets	17	**326**	393
Total non-current assets		**29,573**	29,197
CURRENT ASSETS			
Inventories	19	**44,787**	79,965
Trade receivables	20	**18,047**	6,355
Prepayments, deposits and other receivables	21	**68,808**	33,865
Cash and cash equivalents	22	**1,465,887**	77,659
Total current assets		**1,597,529**	197,844
CURRENT LIABILITIES			
Trade payables	23	**25,358**	14,480
Other payables and accruals	24	**164,620**	69,889
Interest-bearing bank loan	25	**350,000**	30,000
Tax payable		**6,551**	7,124
Total current liabilities and total liabilities		**546,529**	121,493
NET CURRENT ASSETS		**1,051,000**	76,351
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,080,573**	105,548
NET ASSETS		**1,080,573**	105,548
EQUITY			
Equity attributable to the owners of the parent and total equity			
Issued capital	26	**92,066**	–
Share premium	27	**675,843**	–
Proposed final dividend	13	**55,206**	–
Other reserves		**257,458**	105,548
Total equity		**1,080,573**	105,548

Wu Yueshi
Director

Yan Weibin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

		Attributable to owners of the parent							
	Notes	Issued capital RMB'000	Share premium RMB'000 (note 27)	Capital reserves* RMB'000 (note 27 (a))	Statutory surplus reserve* RMB'000 (note 27 (a))	Exchange fluctuation reserve* RMB'000	Retained earnings* RMB'000	Proposed final dividend RMB'000	Total equity RMB'000
At 1 January 2008		–	–	23,406	1,502	(5)	10,091	–	34,994
Total comprehensive income for the year		–	–	–	–	25	70,529	–	70,554
Transfer to statutory surplus reserve		–	–	–	7,053	–	(7,053)	–	–
At 31 December 2008		–	–	23,406	8,555	20	73,567	–	105,548
Total comprehensive income/(loss) for the year		–	–	–	–	(210)	182,120	–	181,910
Contribution from the owners	27(a)	–	–	102,479	–	–	–	–	102,479
Distribution to the owners	27(a)	–	–	(102,479)	–	–	–	–	(102,479)
Capitalisation issue	26(e)	70,438	(70,438)	–	–	–	–	–	–
Issues of shares	26(f)	21,628	841,771	–	–	–	–	–	863,399
Share issue expenses	27(a)	–	(40,284)	–	–	–	–	–	(40,284)
Special dividend declared and paid	13	–	–	–	–	–	(30,000)	–	(30,000)
Proposed final 2009 dividend	13	–	(55,206)	–	–	–	–	55,206	–
Transfer to statutory surplus reserve		–	–	–	18,043	–	(18,043)	–	–
At 31 December 2009		**92,066**	**675,843**	**23,406**	**26,598**	**(190)**	**207,644**	**55,206**	**1,080,573**

* These components of equity comprise the other reserves of RMB257,458,000 (2008: RMB105,548,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**208,408**	79,495
Adjustments for:			
Finance costs	6	**4,184**	859
Interest income	5	**(4,194)**	(836)
Depreciation	7	**2,254**	2,089
Loss on disposal of property, plant and equipment		**23**	–
Amortisation of intangible assets	7	**67**	67
Amortisation of lease prepayments for land use rights	7	**57**	57
		210,799	81,731
(Increase)/decrease in inventories		**35,178**	(51,141)
Increase in trade receivables		**(11,692)**	(1,811)
(Increase)/decrease in prepayments, deposits and other receivables		**(40,498)**	18,183
Increase in trade payables		**10,878**	12,213
Increase/(decrease) in other payables and accruals		**23,386**	(4,050)
Cash generated from operations		**228,051**	55,125
Interest paid		**(4,184)**	(859)
Interest received		**4,194**	836
PRC tax paid		**(26,861)**	(9,548)
Net cash flows from operating activities		**201,200**	45,554
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(3,041)**	(6,079)
Proceeds from disposal of property, plant and equipment		**264**	–
(Increase)/decrease in amounts due from related parties included in prepayments, deposits and other receivables		**5,555**	(17,995)
Net cash flows from/(used in) investing activities		**2,778**	(24,074)

	Notes	2009 RMB'000	2008 RMB'000
Net cash flows from/(used in) investing activities		**2,778**	(24,074)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**510,000**	30,000
Repayment of bank loans		**(190,000)**	–
Gross proceeds from issuance of new shares upon listing	26	**863,399**	–
Payment of listing expenses	27	**(40,284)**	–
Dividend paid	13	**(30,000)**	–
Increase in amounts due to related parties included in other payables and accruals		**71,345**	1,215
Net cash flows from financing activities		**1,184,460**	31,215
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,388,438**	52,695
Cash and cash equivalents at beginning of year		**77,659**	24,939
Effect of foreign exchange rate changes, net		**(210)**	25
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,465,887**	77,659
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	22	**1,465,887**	77,659

STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	18	**171,320**
Total non-current assets		**171,320**
CURRENT ASSETS		
Prepayments, deposits and other receivables	21	**10,966**
Cash and cash equivalents	22	**906,905**
Total current assets		**917,871**
CURRENT LIABILITIES		
Other payables and accruals	24	**95,165**
Total current liabilities and total liabilities		**95,165**
NET CURRENT ASSETS		**822,706**
TOTAL ASSETS LESS CURRENT LIABILITIES		**994,026**
NET ASSETS		**994,026**
EQUITY		
Issued capital	26	**92,066**
Share premium	27(b)	**675,843**
Proposed final dividend	13	**55,206**
Other reserves	27(b)	**170,911**
Total equity		**994,026**

Wu Yueshi
Director

Yan Weibin
Director

1. Corporate Information and the Reorganisation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2009. The authorised share capital of the Company was HK$150,000,000 divided into 1,500,000,000 shares of HK$0.1 each. The registered office of the Company was located at Room 305, 3rd Floor, Arion Commercial Centre, 2-12 Queen's Road West, Hong Kong. The registered office of the Company changed to Room 2101, Beautiful Group Tower, 77 Connaught Road Central, Central, Hong Kong in January 2010. The ordinary shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 October 2009.

Pursuant to a group reorganisation (the "Reorganisation") for the purpose of listing the Company's ordinary shares on the Stock Exchange, on 15 September 2009, the Company acquired the entire issued share capital of Spring Choice Limited ("Spring Choice"), a company incorporated in the British Virgin Islands, which is the holding company of the other subsidiaries comprising the Group, and thereby became the holding company of the Group effective from 15 September 2009. Further details of the Reorganisation are set out in the Company's prospectus dated 24 September 2009.

The Company acts as an investment holding company of the Group. The Group is principally engaged in the production, marketing and distribution of high-end and premium paediatric nutrition products in the People's Republic of China (the "PRC").

2.1 Basis of Presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board (the "IASB"), and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

2.1 Basis of Presentation *(continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. Except for the Reorganisation which has been accounted for as a reorganisation under common control in a manner similar to a pooling-of-interest, the purchase method of accounting is used to account for the acquisition of subsidiaries of the Group. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

2.2 Changes in Accounting Policy and Disclosures

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

2.3 Issued But Not Yet Effective International Financial Reporting Standards

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

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*[2]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2]
IFRS 3 (Revised)	*Business Combinations*[1]
IFRS 9	*Financial Instruments*[6]
IAS 24 (Revised)	*Related Party Disclosures*[5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[5]
IFRIC 17	*Distributions of Non-cash Assets to Owners*[1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to IFRS 5 *included in Improvements to IFRSs* issued in May 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*[1]

Apart from the above, the IASB has issued *Improvements to IFRSs 2009* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC-Int 9 and IFRIC-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 38 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

2.3 Issued But Not Yet Effective International Financial Reporting Standards *(continued)*

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

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.

2.4 Summary of Significant Accounting Policies *(continued)*

Impairment of non-financial assets *(continued)*

An assessment is made at the end of each reporting period 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 other than goodwill 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 an associate;

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

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

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

(f) 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).

2.4 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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". 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 statements of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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
Machinery	5 – 8 years
Motor vehicles	5 years
Office equipment	5 years
Leasehold improvements	8 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 least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised 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 sales proceeds and the carrying amount of the relevant asset.

2.4 Summary of Significant Accounting Policies *(continued)*

Property, plant and equipment and depreciation *(continued)*

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently 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 financial year end.

Non-patent technology and trademarks
Purchased non-patent technology and trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Leases

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 operating leases are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequent recognised on the straight-line basis over the lease terms.

2.4 Summary of Significant Accounting Policies *(continued)*

Investments and other financial assets

Initial recognition and measurement
Financial assets within the scope of IAS 39 are classified as loans and receivables. The Group determines the classification of its financial assets at initial recognition. 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.

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.

The Group's financial assets include cash and bank balances, trade receivables and other receivables.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in other expenses.

2.4 Summary of Significant Accounting Policies *(continued)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

2.4 Summary of Significant Accounting Policies *(continued)*

Impairment of financial assets *(continued)*

Financial assets carried at amortised cost (continued)
If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of comprehensive income.

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 when:

- the rights to receive cash flows from the asset have expired; or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

2.4 Summary of Significant Accounting Policies *(continued)*

Financial liabilities

Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and an interest-bearing bank loan.

Subsequent measurement
The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings
After initial recognition, interest-bearing loans and borrowings 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. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

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.

2.4 Summary of Significant Accounting Policies *(continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

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 consolidated statement of cash flows, 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, including term deposits, which are not restricted as to use.

2.4 Summary of Significant Accounting Policies *(continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., 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. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 the 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; and

(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 earnings 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.

2.4 Summary of Significant Accounting Policies *(continued)*

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme in Hong Kong (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to the statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

2.4 Summary of Significant Accounting Policies *(continued)*

Income tax *(continued)*

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 investments 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.

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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

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.

2.4 Summary of Significant Accounting Policies *(continued)*

Foreign currencies

These financial statements are 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 recorded by the entities in the Group are initially recorded using their respective 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 end of the reporting period. 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 subsidiaries are currencies other than the RMB. As at end of the reporting period, 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 the reporting period and their statement of comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of comprehensive income.

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

3. Significant Accounting Judgements and Estimates

The preparation of these financial statements 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 end of the reporting period. 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 these financial statements:

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 end of the reporting period, 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.

3. Significant Accounting Judgements and Estimates *(continued)*

Estimation uncertainties *(continued)*

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 loss recognised as at 31 December 2009 was nil (2008: Nil). Further details are contained in note 20.

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 for the year ended 31 December 2009 was RMB2,254,000 (2008: RMB2,089,000). Further details are contained in note 15.

4. Operating Segment Information

For management purposes, the Group has a single operating and reportable segment – the production, marketing and distribution of high-end and premium paediatric nutrition products in the PRC (including Hong Kong and Macau). All of the Group's revenue from external customers and operating profit are generated from this single segment. During the year, all of the Group's non-current assets were located in the PRC. None of the Group's sales to a single external customer amounted to 10% or more of the Group's revenue during the year (2008: None).

5. Revenue, Other Income and Gains

Revenue represents the net invoiced value of goods sold, after deduction of allowances for returns and trade discounts.

An analysis of the Group's revenue, other income and gains is as follows:

	2009	2008
	RMB'000	RMB'000
Revenue		
Sale of goods	**623,777**	405,166
Other income and gains		
Interest income	**4,194**	836
Others	**2,704**	–
Total other income and gains	**6,898**	836

6. Finance Costs

	2009	2008
	RMB'000	RMB'000
Interest on a bank loan wholly repayable within five years	**4,184**	859

7. Profit Before Tax

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

	Notes	**2009 RMB'000**	2008 RMB'000
Cost of inventories sold		**315,530**	259,163
Depreciation	15	**2,254**	2,089
Amortisation of lease prepayments for land use rights	16	**57**	57
Amortisation of intangible assets*	17	**67**	67
Minimum lease payments under operating leases:			
Land and buildings		**420**	420
Loss on disposal of property, plant and equipment		**23**	–
Auditors' remuneration		**900**	–
Advertising and promotion expenses		**65,908**	41,027
Employee benefit expenses (including directors' emoluments (note 9)):			
Wages, salaries and staff welfare		**13,306**	9,966
Retirement benefit contributions	8	**923**	784
		14,229	10,750

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

8. Retirement Benefits

The aggregate contributions of the Group to the retirement benefit scheme were approximately RMB923,000 for the year ended 31 December 2009 (2008: RMB784,000).

9. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2009 RMB'000	2008 RMB'000
Fees	**167**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**536**	575
Retirement benefit contributions	**5**	5
	541	580
	708	580

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2009 RMB'000	2008 RMB'000
Mr. Qiu Weifa	**22**	–
Mr. Jason Wan	**22**	–
Mr. Chan Yuk Tong	**35**	–
	79	–

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

9. Directors' Remuneration *(continued)*

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Retirement benefit contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
2009				
Mr. Wu Yueshi	**22**	**–**	**–**	**22**
Mr. Chen Yuanrong	**22**	**536**	**5**	**563**
Mr. Yan Weibin	**22**	**–**	**–**	**22**
Ms. Ng Siu Hung	**22**	**–**	**–**	**22**
	88	**536**	**5**	**629**
2008				
Mr. Wu Yueshi	–	–	–	–
Mr. Chen Yuanrong	–	575	5	580
Mr. Yan Weibin	–	–	–	–
Ms. Ng Siu Hung	–	–	–	–
	–	575	5	580

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

10. Five Highest Paid Employees

The five highest paid employees during the year included one (2008: one) director, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining four (2008: four) non-director, highest paid employees for the year are as follows:

	2009 RMB'000	2008 RMB'000
Salaries, allowances and benefits in kind	**776**	820
Retirement benefit contributions	**20**	19
Total	**796**	839

The remuneration of each of the above non-director, highest paid employees fell within the range of nil to HK$1,000,000 (equivalent to RMB880,480).

During the year, no remuneration (2008: Nil) was paid by the Group to any of the directors of the Company or any of the non-director, highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

11. Income Tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

The Company's subsidiary, Ausnutria Dairy (Hunan) Company Ltd ("Ausnutria Hunan"), is subject to enterprise income tax ("EIT") at the statutory tax rate of 25% (2008: 25%) during the year under the current PRC income tax laws.

11. Income Tax *(continued)*

Pursuant to the then effective relevant PRC income tax laws and regulations, newly established foreign-invested enterprises that were engaged in manufacturing activities with an operation period over 10 years were eligible to apply for a two-year EIT exemption followed by a three-year 50% EIT rate reduction holiday from the first profit-making year. In accordance with the approval from the relevant tax authority in 2004, Ausnutria Hunan was granted an EIT exemption for the two years ended 31 December 2005, and a preferential EIT rate of 15% for the two years ended 31 December 2007 and a preferential EIT rate of 12.5% for the year ended 31 December 2008. Pursuant to an approval from relevant tax authority in March 2010, the first profit-making year of Ausnutria Hunan was revised to the year ended 31 December 2006 and therefore, Ausnutria Hunan was granted the EIT exemption for the two years ended 31 December 2007 and a preferential EIT rate of 12.5% for the three years ending 31 December 2010. Meanwhile, Ausnutria Hunan was also granted a local income tax benefit by local tax authority, whereby Ausnutria Hunan was refunded RMB1,157,000 in 2008 for part of its local income tax paid in 2006 and 2007.

	2009 **RMB'000**	2008 RMB'000
Group:		
Current – Hong Kong	**424**	–
Current – PRC	**25,864**	8,966
Current income tax	**26,288**	8,966

11. Income Tax *(continued)*

A reconciliation of tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Group and the majority of its subsidiaries are domiciled to tax expense at the effective tax rates, and a reconciliation of the statutory rates to the effective tax rates, are as follows:

Group – 2009

	Hong Kong RMB'000	%	Mainland China RMB'000	%	Total RMB'000	%
Profit before tax	**2,568**		**205,840**		**208,408**	
Income tax at the statutory income tax rate	**424**	**16.5**	**51,460**	**25.0**	**51,884**	**24.9**
Tax effects on preferential tax rates	**–**	**–**	**(25,730)**	**(12.5)**	**(25,730)**	**(12.3)**
Expenses not deductible for tax	**–**	**–**	**134**	**0.1**	**134**	**–**
Tax charged at the Group's effective rate	**424**	**16.5**	**25,864**	**12.6**	**26,288**	**12.6**

Group – 2008

	Hong Kong RMB'000	%	Mainland China RMB'000	%	Total RMB'000	%
Profit before tax	–		79,495		79,495	
Income tax at the statutory income tax rate	–	–	19,874	25.0	19,874	25.0
Tax effects on preferential tax rates	–	–	(9,937)	(12.5)	(9,937)	(12.5)
Tax refunds	–	–	(1,157)	(1.5)	(1,157)	(1.5)
Expenses not deductible for tax	–	–	186	0.3	186	0.3
Tax charged at the Group's effective rate	–	–	8,966	11.3	8,966	11.3

12. Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a loss of RMB409,000 which has been dealt with in the financial statements of the Company (note 27 (b)).

13. Dividends

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

	2009 **RMB'000**	2008 RMB'000
Proposed final – HK$6 cents per ordinary share	**55,206**	–

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

14. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 856,191,781 (2008: 800,000,000) in issue during the year, as adjusted to reflect the issue of 245,000,000 new shares during the year.

Earnings

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

Shares

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

14. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent *(continued)*

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

15. Property, Plant And Equipment

Group

	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
31 December 2009						
At 31 December 2008 and 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	256	2,576	–	209	–	3,041
Disposal	–	–	–	(287)	–	(287)
Depreciation provided during the year	(825)	(900)	(360)	(164)	(5)	(2,254)
At 31 December 2009, net of accumulated depreciation	16,048	9,596	1,115	59	116	26,934
At 31 December 2009						
Cost	17,681	12,132	2,038	851	163	32,865
Accumulated depreciation	(1,633)	(2,536)	(923)	(792)	(47)	(5,931)
Net carrying amount	16,048	9,596	1,115	59	116	26,934

15. Property, Plant And Equipment *(continued)*

Group

	Buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improve-ment RMB'000	Construc-tion in progress RMB'000	Total 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

The Group's properties are situated in the mainland China.

As at 31 December 2009, the Group's buildings with a net book value of RMB16,048,000 (2008: RMB16,617,000) were pledged to secure a revolving credit up to RMB30,000,000 granted by Changsha Commercial Bank for a three-year term from 25 July 2008 to 25 July 2011. As at 31 December 2009, the Group did not maintain any loan balance with Changsha Commercial Bank.

16. Lease Prepayments for Land Use Rights

Group

	2009 **RMB'000**	2008 RMB'000
Carrying amount at 1 January	**2,427**	2,484
Recognised during the year	**(57)**	(57)
Carrying amount at 31 December	**2,370**	2,427
Less: Current portion included in prepayments, deposits and other receivables	**(57)**	(57)
Non-current portion	**2,313**	2,370

The leasehold land is held under a long term lease and is situated in the mainland China.

As at 31 December 2009, the Group's lease prepayments for land use rights of RMB2,370,000 (2008: RMB2,427,000) were pledged to secure a revolving credit up to RMB30,000,000 granted by Changsha Commercial Bank. Further details of this revolving credit are set out in note 15. As at 31 December 2009, the Group did not maintain any loan balance with Changsha Commercial Bank.

17. Intangible Assets

Group

	Non-patent technology RMB'000	Trademarks RMB'000	Total RMB'000
31 December 2009			
Cost at 1 January 2009, net of accumulated amortisation	**271**	**122**	**393**
Amortisation	**(50)**	**(17)**	**(67)**
At 31 December 2009, net of accumulated amortisation	**221**	**105**	**326**
At 31 December 2009			
Cost	**500**	**173**	**673**
Accumulated amortisation	**(279)**	**(68)**	**(347)**
Net carrying amount	**221**	**105**	**326**
31 December 2008			
At 1 January 2008:			
Cost	500	173	673
Accumulated amortisation	(180)	(33)	(213)
Net carrying amount	320	140	460
Cost at 1 January 2008, net of accumulated amortisation	320	140	460
Amortisation	(49)	(18)	(67)
At 31 December 2008	271	122	393
At 31 December 2008 and at 1 January 2009:			
Cost	500	173	673
Accumulated amortisation	(229)	(51)	(280)
Net carrying amount	271	122	393

18. Investments in Subsidiaries

	2009 RMB'000
Unlisted shares, at cost	**171,320**

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

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 Direct	Indirect	Principal activities
Spring Choice	British Virgin Islands 22 April 2009	US$200	100	–	Investment holding
Ausnutria Dairy Company Limited	Hong Kong 25 January 2007	HK$1	–	100	Investment holding
Ausnutria Australia Dairy Pty Ltd.	Australia 7 October 2003	A$500,000	–	100	Investment holding
Ausnutria Hunan	PRC/Mainland China 15 September 2003	RMB10,000,000	–	100	Production, marketing and distribution of paediatric nutrition products
Ausnutria Dairy (HK) Company Limited	Hong Kong 3 November 2008	HK$100	–	100	Marketing and distribution of paediatric nutrition products

None of the statutory audited financial statements of the above subsidiaries were audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network (2008: None).

19. Inventories

	2009	2008
	RMB'000	RMB'000
Raw materials	**20,393**	29,929
Finished goods	**22,016**	43,891
Others	**2,378**	6,145
Total	**44,787**	79,965

20. Trade Receivables

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

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

Group

	2009	2008
	RMB'000	RMB'000
Within 3 months	**14,902**	6,267
3 to 6 months	**1,066**	–
Over 6 months	**2,079**	88
	18,047	6,355
Less: Impairment	**–**	–
Total	**18,047**	6,355

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

20. Trade Receivables *(continued)*

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

Group

	2009 RMB'000	2008 RMB'000
Not past due	**14,902**	6,319
Within 90 days past due	**1,066**	–
Over 90 days past due	**2,079**	36
Total	**18,047**	6,355

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there were no recent history of default.

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

21. Prepayments, Deposits and Other Receivables

	Group		Company
	2009 RMB'000	2008 RMB'000	2009 RMB'000
Prepayments to suppliers	**54,004**	13,681	**–**
Due from related parties (note 32 (b))	**12,530**	18,085	**10,966**
Others	**2,274**	2,099	**–**
	68,808	33,865	**10,966**

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.

21. Prepayments, Deposits and Other Receivables *(continued)*

Included in the balance of prepayments to suppliers as at 31 December 2008 was an advance to supplier of RMB10,000,000. The advance bore an interest at a rate of 5% per annum and had no fixed term of repayment. Such arrangement was discontinued in January 2009.

Included in the balances 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 non-interest-bearing and had no fixed terms of repayment. The loan was fully settled in April 2009.

22. Cash and Cash Equivalents

	Group		**Company**
	2009	2008	**2009**
	RMB'000	RMB'000	**RMB'000**
Cash and bank balances	**1,465,887**	77,659	**906,905**

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB555,444,000 (2008: RMB77,653,000). The RMB is not freely convertible in the international market. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances approximate to their fair values.

23. Trade Payables

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

Group

	2009 RMB'000	2008 RMB'000
Within two months	**24,768**	14,463
Over two months	**590**	17
	25,358	14,480

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

24. Other Payables and Accruals

	Group		Company
	2009 **RMB'000**	2008 RMB'000	**2009** **RMB'000**
Advances from customers	**22,726**	31,825	**–**
Deposits	**15,829**	8,478	**–**
Due to related parties (note 32 (b))	**85,452**	14,107	**85,452**
Due to subsidiaries	**–**	–	**9,579**
Accrued salaries and welfare	**4,101**	6,718	**134**
Other tax payables	**22,843**	1,076	**–**
Others	**13,669**	7,685	**–**
	164,620	69,889	**95,165**

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

25. Interest-bearing Bank Loan

On 31 December 2009, the Group obtained a bank loan of RMB350,000,000 from China Construction Bank. The bank loan bore interest at a monthly rate of 0.4425% and was repaid on 22 January 2010. The bank loan was not secured.

Group	**2009**			2008		
	Annual effective interest rate (%)	**Maturity**	**RMB'000**	Annual effective interest rate (%)	Maturity	RMB'000
Bank loans – unsecured (note (i))	**5.31**	**2010**	**350,000**	–	–	–
Bank loans – secured	**–**	**–**	**–**	7.47	2009	30,000
			350,000			30,000

Note (i): The bank loan of RMB350,000,000 was fully repaid on 22 January 2010.

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

26. Share Capital

Shares

	2009 RMB'000	2008 RMB'000
Authorised:		
1,500,000,000 (2008: Nil) ordinary shares of HK$0.1 each	**132,152**	–
Issued and fully paid		
1,045,000,000 (2008: Nil) ordinary shares of HK$0.1 each	**92,066**	–

26. Share Capital *(continued)*

During the year, the movements in authorised share capital were as follows:

(a) The Company was incorporated in the Cayman Islands on 8 June 2009, with an authorised share capital of HK$380,000 divided into 3,800,000 ordinary shares of HK$0.1 each.

(b) Pursuant to written resolution of the shareholders of the Company passed on 15 September 2009, the authorised share capital of the Company was increased from HK$380,000 to HK$150,000,000 by the creation of 1,496,200,000 additional ordinary shares of HK$0.1 each.

During the year, the movements in issued share capital were as follows:

(c) The Company was incorporated in the Cayman Islands on 8 June 2009, with authorised share capital of HK$380,000 divided into 3,800,000 ordinary shares of HK$0.1 each, with one ordinary share issued and allotted to Codan Trust Company (Cayman) Limited. On the same day, the one ordinary share was transferred to Brave Leader Limited ("Brave Leader"). On 17 June 2009, a total of 99 ordinary shares of the Company were allotted and issued for cash at par as to 16 ordinary shares to All Harmony International Limited ("All Harmony"), 49 ordinary shares to Brave Leader, 9 ordinary shares to Silver Castle International Limited ("Silver Castle") and 25 ordinary shares to Ausnutria Holding Co Ltd ("Ausnutria BVI").

(d) On 15 September 2009, All Harmony, Brave Leader, Silver Castle and Ausnutria BVI transferred their respective shareholdings in Spring Choice (which constituted the entire issued share capital of Spring Choice) to the Company in return for the allotment and issue of 144 shares, 450 shares, 81 shares, and 225 shares of the Company, credited as fully paid.

(e) Pursuant to a resolution passed on 19 September 2009, a total of 799,999,000 new ordinary shares of the Company of HK$0.1 each were further allotted and issued, credited as fully paid at par by the Company, by way of capitalisation of the sum of HK$79,999,000 (equivalent to approximately RMB70,438,000) from the share premium account, to the then existing shareholders of the Company, whose names appeared on the register of the Company on 23 September 2009, in proportion to their respective shareholdings. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the issue of new ordinary shares to the public in connection with the Company's initial public offering ("IPO").

26. Share Capital *(continued)*

(f) In connection with the Company's IPO and the over-allotment option as defined in the Prospectus, 245,000,000 new ordinary shares of the Company of HK$0.1 each were issued at a price of HK$4.00 per share for a total cash consideration, before related issuance expenses, of HK$980,000,000 (equivalent to approximately RMB863,399,000).

27. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 35 of the financial statements.

(i) Share premium

In connection with the Company's IPO and the over-allotment option as defined in the Prospectus, 245,000,000 new ordinary shares of the Company of HK$0.1 each were issued at a price of HK$4.00 per share for a total cash consideration, before related issuance expenses, of HK$980,000,000 (equivalent to approximately RMB863,399,000). Share premium represents the excess of the total consideration over the nominal value of shares issued pursuant to the IPO and the over-allotment option after deducting the share issue expenses of RMB40.3 million and the capitalisation issue of RMB70.4 million as mentioned in note 27(e) above.

Pursuant to a resolution of the board of directors of the Company passed on 22 April 2010, a proposed 2009 final dividend totalling RMB55,206,000 will be distributed from the share premium account of the Company.

(ii) Capital reserves

The contribution from the owners represented the capital injection from All Harmony, Brave Leader and Silver Castle to the Group in July 2009.

The distribution to the owners represented payables to the then equity holders of 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 (the "Transfer"). Since the 75% equity interests in Ausnutria Hunan were ultimately owned by the then shareholders of the Company both before and after the Transfer, the Transfer was accounted for as a distribution to the owners of the Company. The payables were fully settled by the capital injection abovementioned.

27. Reserves *(continued)*

(a) Group *(continued)*

(iii) Statutory surplus reserve

According to the PRC Company Law, the PRC subsidiaries of the Group are required to transfer 10% of their respective after-tax profits, calculated in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provided that such fund is maintained at a minimum level of 25% of the registered capital.

(b) Company

	Notes	Share premium RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 31 December 2008 and 1 January 2009		–	–	–	–	–
Total comprehensive income for the year		–	–	(409)	–	(409)
Acquisition of subsidiaries		–	171,320	–	–	171,320
Capitalisation issue	26(e)	(70,438)	–	–	–	(70,438)
Issues of shares	26(f)	841,771	–	–	–	841,771
Share issue expenses	27(a)	(40,284)	–	–	–	(40,284)
Proposed final 2009 dividend	13	(55,206)	–	–	55,206	–
At 31 December 2009		675,843	171,320	(409)	55,206	901,960

The Company's capital reserve represents the excess of the net asset value of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the Company's shares issued in exchange therefor.

28. Pledge of Assets

The Group's properties and lease prepayments for land use rights as at 31 December 2009 were pledged to secure a revolving banking facility of RMB30,000,000, details of which were set out in note 15 and note 16 to the financial statements.

29. Contingent Liabilities

At the end of the reporting period, the Group and the Company did not have any significant contingent liabilities.

30. Operating Lease Arrangements

As lessee

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

	2009	2008
	RMB'000	RMB'000
Within one year	**420**	420

As at the end of the reporting period, the Company did not have future minimum lease payments under non-cancellable operating leases.

31. Commitments

At the end of the reporting period, neither the Group nor the Company had any significant commitments.

32. Related Party Transactions

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	Notes	**2009 RMB'000**	2008 RMB'000
Continuing transactions:			
Office rental expense to Changsha Xin Da Xin Real Estate Management Co., Ltd. ("Xin Da Xin Real Estate")	(i)	**420**	420
Provision of a guarantee to the Group	(ii)	**27,328**	–
Discontinued transactions:			
Sales of merchandise to Xin Da Xin	(iii)	**69**	52
Interest income	(iv)	**3,286**	–
Provision of a guarantee to the Group	(iv)	**160,000**	–
Sale of merchandise to Hunan Aubrand Food Co., Ltd. ("Aubrand")	(v)	**1,846**	–

Notes:

(i) The Group rents certain premises of an office building located in Changsha from Xin Da Xin Real Estate, a fellow subsidiary of the Company. During the year, the rental was determined on mutually agreed terms on an annual basis. In the opinion of the directors, the rental expenses were determined by reference to the prevailing market rental of comparable premises.

(ii) As at 31 December 2009, the Group was granted a line of credit of US$4 million (equivalent to RMB27,328,000) (2008: Nil) by Bank of China. The line of credit was guaranteed by Xin Da Xin.

32. Related Party Transactions *(continued)*

(a) *(continued)*

Notes: *(continued)*

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

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

In the opinion of the directors of the Company, the bank loan was solely for the purpose of providing finance to Xin Da Xin and therefore the entire interest of RMB3,286,000 from the bank loan was fully charged to Xin Da Xin. The Group provided aggregate finance support of RMB143 million to Xin Da Xin in March 2009 which was fully settled in May 2009.

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

The related party transactions in note (iii), note (iv) and note (v) above were discontinued after the IPO.

32. Related Party Transactions *(continued)*

(b) Balances with related parties

	Notes	**2009 RMB'000**	2008 RMB'000
Trade receivables:			
Xin Da Xin		**–**	75
Prepayments, deposits and other receivables:			
Hunan Mornring Foodstuff Co., Ltd. ("Mornring")	(i)	**–**	85
Aubrand		**1,564**	–
Xin Da Xin		**–**	18,000
Ausnutria BVI	(ii)	**2,612**	–
Brave Leader	(ii)	**8,354**	–
Other payables and accruals:			
All Harmony	(ii)	**46,403**	–
Silver Castle	(ii)	**39,049**	–
Aubrand		**–**	8,567
Mornring	(i)	**–**	5,540

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

Notes:

(i) Mornring is a fellow subsidiary of the Group.

(ii) These entities are shareholders of the Company and under the control of certain executive directors of the Company.

32. Related Party Transactions *(continued)*

(c) Compensation of key management personnel of the Group

	2009 RMB'000	2008 RMB'000
Salaries, allowances and benefits in kind	**536**	575
Retirement benefit contributions	**5**	5
Total compensation paid to key management personnel	**541**	580

Further details of directors' emoluments are included in note 9 to the financial statements.

33. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Group		Company
	2009 Loan and receivables RMB'000	2008 Loan and receivables RMB'000	**2009 Loan and receivables RMB'000**
Trade receivables	**18,047**	6,355	**–**
Financial assets included in prepayments, deposits and other receivables	**12,530**	18,085	**10,966**
Cash and cash equivalents	**1,465,887**	77,659	**906,905**
	1,496,464	102,099	**917,871**

33. Financial Instruments by Category *(continued)*

Financial liabilities

	Group		Company
	2009 Financial liabilities at amortised cost RMB'000	2008 Financial liabilities at amortised cost RMB'000	**2009 Financial liabilities at amortised cost RMB'000**
Trade payables	**25,358**	14,480	**–**
Financial liabilities included in other payables and accruals	**114,950**	30,270	**85,452**
Interest-bearing bank loan	**350,000**	30,000	**–**
	490,308	74,750	**85,452**

34. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise an interest-bearing bank loan, amounts due from/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 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 does not have any long term debt obligations with floating interest rates as at the end of the reporting period (2008: None). Therefore, the Group considers that the exposure to interest rate risk is insignificant.

34. Financial Risk Management Objectives and Policies *(continued)*

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.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	2009			
	On demand RMB'000	**Less than 3 months RMB'000**	**3 to less than 12 months RMB'000**	**Total RMB'000**
Bank loan	**–**	**–**	**350,000**	**350,000**
Trade payables	**–**	**24,768**	**590**	**25,358**
Financial liabilities included in other payables and accruals	**101,281**	**13,669**	**–**	**114,950**
Total	**101,281**	**38,437**	**350,590**	**490,308**

	2008			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Bank loan	–	–	30,000	30,000
Trade payables	–	14,480	–	14,480
Financial liabilities included in other payables and accruals	16,924	10,913	2,433	30,270
Total	16,924	25,393	32,433	74,750

34. Financial Risk Management Objectives and Policies *(continued)*

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The carrying amounts of cash and cash equivalents, trade receivables, other receivables and other financial assets, represent the Group's maximum exposure to credit risk in relation to the Group's other financial assets. Substantially all of the Group's cash and cash equivalents are held in major financial institutions located in the PRC (including Hong Kong and Macau), which management believes are of high credit quality. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the amount of credit exposure to any single financial institution.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. As the Group's major customers are the PRC government agencies, the Group believes that they are reliable and of high credit quality and hence, there is no significant credit risk with these customers. As the Group's exposure spreads over a diversified portfolio of customers, there is no significant concentration of credit risk.

Foreign currency risk

Substantially all of the Group's businesses are denominated in RMB, which is the Group's functional currency. The RMB is not freely convertible into foreign currencies and conversion of the RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The Group's certain bank balances are denominated in HK$, and certain revenue and expenses of subsidiaries of the Group are denominated in HK$.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonable possible change in HK$ exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity.

34. Financial Risk Management Objectives and Policies *(continued)*

Foreign currency risk *(continued)*

	Increase/ (decrease) in US$ rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2009			
If RMB weakens against HK$	**5%**	**45,345**	**–**
If RMB strengthens against HK$	**(5%)**	**(45,345)**	**–**
2008			
If RMB weakens against HK$	5%	–	–
If RMB strengthens against HK$	(5%)	–	–

* Excluding retained earnings

Capital management

The primary objectives of the Group's capital management are 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 for managing capital during the year.

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 owners of the parent. The Group's policy is to maintain the gearing ratio at a reasonable level.

34. Financial Risk Management Objectives and Policies *(continued)*

Capital management *(continued)*

The gearing ratio as at the end of the reporting period is as follows:

	2009 RMB'000	2008 RMB'000
Interest-bearing bank loan	**350,000**	30,000
Trade payables	**25,358**	14,480
Other payables and accruals	**164,620**	69,889
Less: Cash and cash equivalents	**(1,465,887)**	(77,659)
Net debts/(assets)	**(925,909)**	36,710
Equity	**1,080,573**	105,548
Equity and net debt	**154,664**	142,258
Gearing ratio	**(599%)**	26%

The negative gearing ratio as at 31 December 2009 was mainly due to the IPO proceeds received in October 2009, all of which had not been utilized up to 31 December 2009.

35. Events after the reporting period

Save as the repayment of a bank loan of RMB350,000,000 disclosed in note 25 to the financial statements, the Group also had the following event after the reporting period:

On 24 March 2010, Ausnutria Hunan entered into an entrusted fund management agreement (the "Agreement") with Hunan Trust and Investment Co., Ltd. ("Hunan Trust"), an independent third party, pursuant to which, Ausnutria Hunan entrusted Hunan Trust a fund of RMB200,000,000 to purchase a loan product (the "Loan Product") from Hunan Provincial Expressway Construction and Development Co., Ltd., an independent third party. The Loan Product is unsecured, bore interest at a rate of 5% per annum and will mature on 17 March 2011.

36. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 22 April 2010.

FOUR YEAR PUBLISHED FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years, as extracted from the published audited financial statements and the Prospectus, is set out below.

	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS				
REVENUE	**623,777**	405,166	186,526	93,716
Cost of sales	**(315,530)**	(259,163)	(107,729)	(48,443)
Gross profit	**308,247**	146,003	78,797	45,273
Other income and gains	**6,898**	836	1,045	60
Selling and distribution costs	**(91,947)**	(56,628)	(43,335)	(21,877)
Administrative expenses	**(10,565)**	(9,162)	(8,039)	(4,731)
Other expenses	**(41)**	(695)	(234)	(3,300)
Finance costs	**(4,184)**	(859)	(493)	(536)
PROFIT BEFORE TAX	**208,408**	79,495	27,741	14,889
Tax	**(26,288)**	(8,966)	(5,368)	(3,036)
PROFIT FOR THE YEAR	**182,120**	70,529	22,373	11,853
Other comprehensive income:				
Exchange difference on				
translating foreign operations	**(210)**	25	(5)	–
TOTAL COMPREHENSIVE INCOME				
FOR THE YEAR	**181,910**	70,554	22,368	11,853
Attributable to:				
Owners of the parent	**182,120**	70,529	22,373	11,853
ASSETS AND LIABILITIES				
TOTAL ASSETS	**1,627,102**	227,041	116,647	50,257
TOTAL LIABILITIES	**(546,529)**	(121,493)	(81,653)	(51,029)
	1,080,573	105,548	34,994	(772)

The financial information for each of the three years ended 31 December 2008 has been prepared upon the Reorganisation as if the group structure, at the time when the Shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The results for each of the three years ended 31 December 2008, and the assets and liabilities as at 31 December 2006, 2007 and 2008 have been extracted from the Prospectus.