The following is the text of a report, prepared for the purpose of incorporation in this Prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

20 October 2010

The Directors
Yashili International Holdings Ltd

Merrill Lynch Far East Limited
UBS AG, Hong Kong Branch

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Yashili International Holdings Ltd (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 (the "Relevant Period"), and the combined balance sheets of the Group as at 31 December 2007, 2008 and 2009 and 30 June 2010 together with the notes thereto (the "Combined Financial Information"), for inclusion in the Prospectus of the Company dated 20 October 2010 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 3 June 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 5 July 2010 (the "Reorganisation") as detailed in the section headed "History and Corporate Structure" in the Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company, Yashili International Ltd. ("Yashili (BVI)"), Yashili International Group Ltd. ("Yashili (HK)"), Yashili Hong Kong International Trading Co., Ltd. ("Yashili Trading"), Scient International (USA), Inc. ("Scient (USA)") and Chaoan Victory Trading Limited ("Victory Trading") as they either have not carried on any business since the date of incorporation or are not subject to statutory audit requirements under the relevant laws and regulations in their jurisdictions of incorporation.

All companies now comprising the Group have adopted 31 December as their financial year end date. Details of the companies now comprising the Group that are subject to audit during the Relevant Period and the names of the respective auditors are set out in Note 1(b) of Section C. The statutory financial statements of these companies were prepared in accordance with the relevant accounting rules and regulations applicable to the enterprises in the People's Republic of China (the "PRC") in which they were incorporated or established.

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Period in accordance with the basis of preparation set out in Section A below and the accounting policies set out in Section C below (the "Underlying Financial Statements"). The Underlying Financial Statements for each of the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Combined Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

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

Our responsibility is to express an opinion on the Combined Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Combined Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out appropriate procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 30 June 2010.

OPINION

In our opinion, for the purpose of this report, the Combined Financial Information, on the basis of preparation set out in Section A below and in accordance with the accounting policies set out in Section C below, gives a true and fair view of the Group's combined results and cash flows for the Relevant Period, and the state of affairs of the Group as at 31 December 2007, 2008 and 2009 and 30 June 2010.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the combined income statement, the combined statement of comprehensive income, the combined statement of changes in equity and the combined cash flow statement for the six months ended 30 June 2009, together with the notes thereto (the "Corresponding Financial Information") for which the directors are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Combined Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Combined Financial Information.

A. BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 3 June 2010 as part of the Reorganisation of Guangdong Yashili Group Company Limited ("Yashili (Guangdong)") in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK"). Yashili (Guangdong) is the holding company of its subsidiaries and is principally engaged in the production and sales of dairy products. Pursuant to the Reorganisation, the Company became the intermediate holding company of Yashili (Guangdong) and its subsidiaries.

Pursuant to the concert party arrangement which was in existence during the Relevant Period as detailed in the section headed "History and Corporate Structure" in the Prospectus, the companies that took part in the Reorganisation now comprising the Group were controlled by the same group of equity owners, namely Mr. Zhang Likun, Mr. Zhang Liming, Mr. Zhang Lihui, Mr. Zhang Libo, Mr. Zhang Lidian, Ms. Yang Chuxian, Ms. Wang Yujiao, Ms. Zhang Peizhu, Ms. Zhang Yuanjuan, Ms. Xie Shunzhen, Ms. She Lifang and Shantou Zhang's Investment Co., Ltd (collectively referred to as the

"Controlling Equity Owners") before and after the Reorganisation. The control is not transitory and, consequently, there was a continuation of the risks and benefits to the Controlling Equity Owners and, therefore, the Reorganisation is considered to be a business combination of entities under common control.

Merger accounting has been applied in the accounting of the Reorganisation. The combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements of the Group as set out in Section B include the results of operations of the Company and its subsidiaries for the Relevant Period (or where the Company and its subsidiaries were incorporated/established/acquired at a date later than 1 January 2007, for the period from the date of incorporation/establishment/acquisition to 30 June 2010) as if the Reorganisation was completed at the beginning of the Relevant Period. The combined balance sheets of the Group as at 31 December 2007, 2008 and 2009 and 30 June 2010 as set out in Section B have been prepared to present the state of affairs of the Group as at those dates as if the Reorganisation was completed at the beginning of the Relevant Period.

All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the Company has direct or indirect interests in the following subsidiaries, which are private limited liability companies or, if established/incorporated outside Hong Kong have substantially the same characteristics as a Hong Kong private company. The particulars of these subsidiaries are set out below:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid up/ registered capital	Attributable equity interest Direct	Indirect	Principal activities
Yashili (BVI).	British Virgin Islands "BVI" 4 June 2010	US$1	100%	—	Investment holding
Yashili (HK)	Hong Kong 11 June 2010	HK$1	—	100%	Investment holding
Yashili Trading	Hong Kong 11 June 2010	HK$1	—	100%	Import and export of dairy products and related materials
Yashili (Guangdong) (廣東雅士利集團有限公司) *(i) & (ii)* . . .	the PRC 5 July 2010	RMB592,105,300	—	100%	Production and sales of dairy products
Scient (Guangzhou) Baby Nourishment Co., Ltd. ("Scient (Guangzhou)") (施恩(廣州)嬰幼兒營養品有限公司) *(i)*. .	the PRC 29 March 2002	RMB155,000,000	—	95%	Production and sales of dairy products
Heilongjiang Yashili Dairy Co., Ltd. ("Yashili (Heilongjiang)") (黑龍江雅士利乳業有限公司) *(i)*	the PRC 10 April 2005	RMB20,080,000	—	100%	Production and sales of dairy products
Yashili (Zhengzhou) Nourishment Co., Ltd. ("Yashili (Zhengzhou)") (雅士利(鄭州)營養品有限公司) *(i)*	the PRC 2 March 2007	RMB50,000,000	—	70%	Production and sales of dairy products

Name of company	Place and date of incorporation/ establishment	Issued and fully paid up/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Shanxi Yashili Dairy Co., Ltd. ("Yashili (Shanxi)") (山西雅士利乳業有限公司) *(i)*	the PRC 31 March 2006	RMB300,000,000	—	100%	Production and sales of dairy products
Chaoan Bisheng Decoration and Printing Co., Ltd. ("Bisheng") (潮安縣必勝裝潢印務有限公司) *(i)*	the PRC 30 May 2007	RMB10,800,000	—	100%	Production and sales of packing materials
Guangzhou Yuqian Import and Export Trading Co., Ltd. ("Yuqian") (廣州裕乾進出口貿易有限公司) *(i)*	the PRC 4 January 2009	RMB5,000,000	—	100%	Import and export of dairy products and related materials
Shanghai Yashili Food Co., Ltd. ("Yashili (Shanghai)") (上海雅士利食品有限公司) *(i) & (iii)* . .	the PRC 12 June 2008	RMB2,000,000	—	100%	Sales of food products
Scient (USA) (美國施恩國際有限公司) *(iv)*	United States of America 7 May 2007	USD620,000	—	100%	Investment holding
Victory Trading (潮安縣利成貿易有限公司) *(i) & (v)*. . .	the PRC 30 October 2007	RMB5,000,000	—	100%	Import and export of dairy products and related materials

During the Relevant Period, the Company disposed of/liquidated its indirect interests in the following subsidiaries, all of which are private limited liability companies and the particulars of these subsidiaries are set out below:

Name of company	Place and date of establishment	Fully paid up/ registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Haoweijia Food Co., Ltd. ("Haoweijia Food") (廣東好味佳食品有限公司) *(i) & (vi)*. . .	the PRC 5 August 2003	RMB10,800,000	—	100%	Production and sales of preserved fruit snacks
Guangdong Yashili Dairy Co., Ltd. ("Yashili Dairy") (廣東雅士利乳業有限公司) *(i) & (vii)* . .	the PRC 7 September 2001	RMB10,800,000	—	100%	Production and sales of dairy products
Chaozhou Yashili Nutrition Co., Ltd. ("Yashili Nutrition") (潮州雅士利營養品有限公司) *(i) & (viii)*	the PRC 29 September 2003	RMB10,800,000	—	100%	Production and sales of dairy products

(i) The official names of these entities are in Chinese. The English translation of the names is for reference only.

(ii) At the date of this report, Yashili (Guangdong) is a wholly foreign-owned limited liability company. It was originally established as a PRC limited liability company, namely Guangdong Yashili Group Co., Ltd. (廣東雅士利集團有限公司), on 9 March 1998. It was then converted into a PRC joint stock limited liability company, namely Guangdong Yashili Group Joint Stock Co., Ltd. (廣東雅士利集團股份有限公司), on 27 March 2008. As part of the Reorganisation, it was converted into a Sino-foreign equity joint venture limited liability company, namely Guangdong Yashili Group Company Limited (廣東雅士利集團有限公司) on 1 July 2010 and was subsequently converted into a wholly foreign-owned limited liability company on 5 July 2010. The equity holders composition remained unchanged during the conversions in connection with the Reorganisation.

(iii) Yashili (Guangdong) acquired the entire equity interest in Yashili (Shanghai) from certain independent third parties on 31 July 2009.

(iv) Yashili (Guangdong) acquired the entire equity interest in Scient (USA) from an independent third party on 31 December 2008.

(v) Yashili (Guangdong) acquired the entire equity interest in Victory Trading from certain independent third parties on 25 June 2010.

(vi) Yashili (Guangdong) disposed of the entire equity in Haoweijia Food to the Controlling Equity Owners on 31 December 2007.

(vii) Yashili (Guangdong) liquidated Yashili Dairy on 27 March 2008.

(viii) Yashili (Guangdong) liquidated Yashili Nutrition on 27 March 2008.

B. COMBINED FINANCIAL INFORMATION

1. Combined income statements

	Section C Note	Year ended 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	Six months ended 30 June 2009 RMB'000 (Unaudited)	2010 RMB'000
Turnover	7	2,892,161	2,751,593	2,585,973	1,376,206	1,375,454
Cost of sales		(1,637,091)	(1,463,677)	(1,095,617)	(628,733)	(563,861)
Gross profit		1,255,070	1,287,916	1,490,356	747,473	811,593
Other revenue	8	20,151	17,041	34,706	18,382	34,908
Other net (loss)/income		(139)	(1,042)	128	19	(69)
Selling and distribution costs		(709,001)	(1,059,101)	(891,938)	(454,736)	(471,694)
Administrative expenses		(66,590)	(137,272)	(129,078)	(59,311)	(80,234)
Other expenses	9	(8,768)	(795,938)	(14,221)	(9,544)	(6,313)
Profit/(loss) from operations		490,723	(688,396)	489,953	242,283	288,191
Finance income	10(a)	14,820	7,827	3,385	852	2,803
Finance costs	10(a)	(11,627)	(21,307)	(22,051)	(11,076)	(6,026)
Net finance income/(costs)		3,193	(13,480)	(18,666)	(10,224)	(3,223)
Profit/(loss) before income tax	10	493,916	(701,876)	471,287	232,059	284,968
Income tax expense	11	(23,469)	87,102	(68,874)	(34,471)	(43,967)
Profit/(loss) from continuing operations		470,447	(614,774)	402,413	197,588	241,001
Discontinued operation						
Loss from discontinued operation (net of income tax)	4	(554)	—	—	—	—
Profit/(loss) for the year/period		469,893	(614,774)	402,413	197,588	241,001
Profit/(loss) attributable to:						
Equity holders of the Company		415,632	(563,898)	404,665	197,951	239,674
Non-controlling interests		54,261	(50,876)	(2,252)	(363)	1,327
Profit/(loss) for the year/period		469,893	(614,774)	402,413	197,588	241,001

The accompanying notes form part of the Combined Financial Information.

2. Combined statements of comprehensive income

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Profit/(loss) for the year/period	469,893	(614,774)	402,413	197,588	241,001
Other comprehensive income					
Exchange differences on translation of financial statements of overseas subsidiaries	—	—	(2)	(1)	(7)
Total comprehensive income for the year/period	469,893	(614,774)	402,411	197,587	240,994
Total comprehensive income attributable to:					
Equity holders of the Company	415,632	(563,898)	404,663	197,950	239,667
Non-controlling interests	54,261	(50,876)	(2,252)	(363)	1,327
Total comprehensive income for the year/period	469,893	(614,774)	402,411	197,587	240,994

The accompanying notes form part of the Combined Financial Information.

3. Combined balance sheets

	Section C Note	31 December 2007 RMB'000	31 December 2008 RMB'000	31 December 2009 RMB'000	30 June 2010 RMB'000
Non-current assets					
Property, plant and equipment	15	615,619	762,571	762,078	722,011
Intangible assets	16	2,989	3,220	3,429	8,289
Investment properties	17	11,713	13,788	44,886	63,022
Lease prepayments	18	82,166	116,260	113,450	113,734
Deferred tax assets	19(b)	1,057	130,839	67,240	40,975
Prepayments for acquisition of property, plant and equipment		11,231	29,824	12,364	10,557
Other non-current assets		6,658	314	3,646	3,479
Total non-current assets		731,433	1,056,816	1,007,093	962,067
Current assets					
Other investments	20	38,200	—	—	—
Inventories	21	424,170	369,066	292,008	523,310
Trade and bills receivables	22	66,556	49,887	79,059	57,586
Prepayments and other receivables	23	162,939	98,226	143,312	121,683
Amounts due from related parties	37(c)	128,611	18,001	21,159	16,831
Income tax recoverable	19(a)	—	9,227	506	—
Restricted bank deposits	24	21,866	6,870	19,695	138,815
Cash and cash equivalents	25	96,911	304,868	660,628	610,424
Total current assets		939,253	856,145	1,216,367	1,468,649
Current liabilities					
Loans and borrowings	26	164,000	327,340	230,000	330,535
Trade and other payables	27	604,418	1,347,922	643,242	504,263
Amounts due to related parties	37(c)	271,883	155,461	10,127	7,804
Income tax payables	19(a)	10,626	8,770	3,796	20,232
Provision for sales return	28	—	46,665	9,023	1,409
Total current liabilities		1,050,927	1,886,158	896,188	864,243
Net current (liabilities)/assets		(111,674)	(1,030,013)	320,179	604,406
Total assets less current liabilities		619,759	26,803	1,327,272	1,566,473
Non-current liabilities					
Loans and borrowings	26	—	40,000	—	—
Deferred income	29	—	—	37,045	33,822
Amounts due to related parties	37(c)	16,000	—	—	—
Total non-current liabilities		16,000	40,000	37,045	33,822
Net assets/(liabilities)		603,759	(13,197)	1,290,227	1,532,651
Equity					
Capital	30	106,800	450,000	592,105	592,105
Reserves	31	430,839	(478,271)	686,821	927,918
Total equity attributable to equity holders of the Company		537,639	(28,271)	1,278,926	1,520,023
Non-controlling interests		66,120	15,074	11,301	12,628
Total equity		603,759	(13,197)	1,290,227	1,532,651

The accompanying notes form part of the Combined Financial Information.

4. Combined statements of changes in equity

	Section C Note	Capital RMB'000 (Note 30)	Share premium RMB'000 (Note 30)	PRC statutory reserves RMB'000 (Note 31(a))	Equity-settled share-based payment reserve RMB'000 (Note 31(e))	Other capital reserves RMB'000 (Note 31(f))	Translation reserve RMB'000 (Note 31(b))	Retained earnings/ (Accumulated losses) RMB'000 (Note 31(c))	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
		Attributable to equity holders of the Company									
At 1 January 2007		185,846	—	10,384	—	3,270	—	261,760	461,260	40,114	501,374
Dividends declared during the year	31(d)	—	—	—	—	—	—	(260,207)	(260,207)	(76,800)	(337,007)
Reinvestment in Scient (Guangzhou)	31(d)	95,474	—	—	—	—	—	—	95,474	33,545	129,019
Capital injection to Bisheng by the Controlling Equity Owners		10,800	—	—	—	—	—	—	10,800	—	10,800
Deemed distribution to the then equity holders	30(i)	(185,320)	—	—	—	—	—	—	(185,320)	—	(185,320)
Capital injection		—	—	—	—	—	—	—	—	15,000	15,000
Total comprehensive income for the year		—	—	—	—	—	—	415,632	415,632	54,261	469,893
Appropriation to statutory reserve		—	—	40,812	—	—	—	(40,812)	—	—	—
At 31 December 2007		106,800	—	51,196	—	3,270	—	376,373	537,639	66,120	603,759
At 1 January 2008		106,800	—	51,196	—	3,270	—	376,373	537,639	66,120	603,759
Total comprehensive income for the year		—	—	—	—	—	—	(563,898)	(563,898)	(50,876)	(614,774)
Acquisition of non-controlling interests	5(a)	—	—	—	—	(2,012)	—	—	(2,012)	(51)	(2,063)
Dividends declared during the year		—	—	—	—	—	—	—	—	(119)	(119)
Restructuring of Yashili (Guangdong)	30(ii)	343,200	17,687	(51,196)	—	(2,646)	—	(307,045)	—	—	—
At 31 December 2008		450,000	17,687	—	—	(1,388)	—	(494,570)	(28,271)	15,074	(13,197)
At 1 January 2009		450,000	17,687	—	—	(1,388)	—	(494,570)	(28,271)	15,074	(13,197)
Total comprehensive income for the year		—	—	—	—	—	(2)	404,665	404,663	(2,252)	402,411
Capital injection	30(iii)	142,105	757,421	—	—	—	—	—	899,526	—	899,526
Acquisition of non-controlling interests	5(c)	—	—	—	—	155	—	—	155	(1,521)	(1,366)
Appropriation to statutory reserves		—	—	7,981	—	—	—	(7,981)	—	—	—
Equity-settled share-based payment transactions	32	—	—	—	2,853	—	—	—	2,853	—	2,853
At 31 December 2009		592,105	775,108	7,981	2,853	(1,233)	(2)	(97,886)	1,278,926	11,301	1,290,227
At 1 January 2010		592,105	775,108	7,981	2,853	(1,233)	(2)	(97,886)	1,278,926	11,301	1,290,227
Total comprehensive income for the period		—	—	—	—	—	(7)	239,674	239,667	1,327	240,994
Equity-settled share-based payment transactions	32	—	—	—	1,430	—	—	—	1,430	—	1,430
At 30 June 2010		592,105	775,108	7,981	4,283	(1,233)	(9)	141,788	1,520,023	12,628	1,532,651
Unaudited											
At 1 January 2009		450,000	17,687	—	—	(1,388)	—	(494,570)	(28,271)	15,074	(13,197)
Total comprehensive income for the period		—	—	—	—	—	(1)	197,951	197,950	(363)	197,587
Acquisition of non-controlling interests	5(c)	—	—	—	—	155	—	—	155	(1,521)	(1,366)
Equity-settled share-based payment transaction	32	—	—	—	1,427	—	—	—	1,427	—	1,427
At 30 June 2009		450,000	17,687	—	1,427	(1,233)	(1)	(296,619)	171,261	13,190	184,451

The accompanying notes form part of the Combined Financial Information.

5. Combined cash flow statements

	Section C Note	Year ended 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	Six months ended 30 June 2009 RMB'000 (Unaudited)	2010 RMB'000
Cash flows from operating activities						
Profit/(loss) before income tax						
— from continuing operations		493,916	(701,876)	471,287	232,059	284,968
— from a discontinued operation		190	—	—	—	—
Adjustments for:						
Depreciation		19,421	47,612	65,519	30,571	34,657
Amortisation		2,094	2,447	4,048	1,623	2,532
Net loss on disposal of a subsidiary		2,030	—	—	—	—
Net loss/(gain) on disposal of property, plant and equipment		139	1,042	(128)	(19)	69
Impairment loss for trade and other receivables		835	2,071	2	—	1,846
Write-down of inventories		—	456,854	251	—	542
Equity-settled share-based transactions		—	—	2,853	1,427	1,430
Interest expenses		11,616	21,307	22,035	11,060	6,022
Interest income		(5,525)	(5,679)	(3,362)	(829)	(2,765)
Net realised and unrealised gain on trading assets		(9,295)	(2,139)	(23)	(23)	(38)
Subtotal		515,421	(178,361)	562,482	275,869	329,263
Change in inventories		(188,614)	(401,750)	76,807	19,323	(146,097)
Change in trade and bills receivables		(30,753)	15,442	(29,340)	10,378	19,388
Change in prepayments and other receivables		(95,607)	61,985	(57,993)	(27,463)	27,343
Change in restricted bank deposits		(14,041)	14,996	(12,825)	(5,927)	(4,446)
Change in trade and other payables		290,506	720,592	(644,997)	(450,808)	(249,048)
Change in provision for sales return		—	46,665	(37,642)	—	(7,614)
Change in deferred income		—	—	37,045	18,900	(3,223)
Change in amounts due from related parties		(19,185)	23,630	(1,158)	(217)	2,328
Change in amounts due to related parties		9,112	(2,683)	3,698	1,620	(3,409)
Cash generated from/(used in) operating activities		466,839	300,516	(103,923)	(158,325)	(35,515)
Income tax paid		(16,107)	(53,763)	(1,528)	(8,862)	(2,937)
Net cash generated from/(used in) operating activities		450,732	246,753	(105,451)	(167,187)	(38,452)

	Section C Note	Year ended 31 December 2007 RMB'000	2008 RMB'000	2009 RMB'000	Six months ended 30 June 2009 RMB'000 (Unaudited)	2010 RMB'000
Cash flows from investing activities						
Interest received		5,345	5,859	3,362	829	2,765
Proceeds from disposal of property, plant and equipment		6,624	21,888	1,001	797	1,338
Proceeds from sales of other investments		123,075	87,838	15,023	15,023	30,038
Proceeds from disposal of subsidiary		—	10,800	—	—	—
Proceeds from repayment of advances to the Controlling Equity Owners		17,000	76,000	42,000	42,000	2,000
Acquisition of property, plant and equipment		(431,704)	(215,729)	(93,626)	(60,365)	(26,045)
Acquisition of intangible assets		(3,034)	(666)	(1,110)	(106)	(1,718)
Acquisition of lease prepayments		(41,255)	(3,854)	(31,500)	(31,500)	(1,500)
Acquisition of other non-current assets		(5,385)	—	(3,670)	—	(193)
Acquisition of other investments		(151,980)	(47,500)	(15,000)	(15,000)	(30,000)
Acquisition of subsidiaries, net of cash acquired	5	—	(3,840)	(1,825)	—	16,499
Advances to the Controlling Equity Owners		(90,000)	—	(44,000)	(44,000)	—
Net cash used in investing activities		(571,314)	(69,204)	(129,345)	(92,322)	(6,816)
Cash flows from financing activities						
Capital contribution from equity holders		15,000	—	899,526	—	—
Capital injection to Bisheng by the Controlling Equity Owners		10,800	—	—	—	—
Deemed distribution to the then equity holders	30(i)	(185,320)	—	—	—	—
Proceeds from loans and borrowings		153,000	413,840	338,000	255,000	—
Acquisition of non-controlling interests		—	—	(683)	(683)	—
Repayments of loans and borrowings		(129,000)	(210,500)	(475,340)	(197,000)	—
Advances from the Controlling Equity Owners		138,000	90,000	193,000	183,000	1,086
Repayments of advances from the Controlling Equity Owners		(43,118)	(154,000)	(283,000)	(100,000)	—
Interest paid		(11,616)	(21,283)	(21,915)	(12,729)	(6,022)
Dividends paid		(41,625)	(87,649)	(59,032)	—	—
Net cash (used in)/generated from financing activities		(93,879)	30,408	590,556	127,588	(4,936)
Net (decrease)/increase in cash and cash equivalents		(214,461)	207,957	355,760	(131,921)	(50,204)
Cash and cash equivalents at beginning of the year/period		311,372	96,911	304,868	304,868	660,628
Cash and cash equivalents at end of the year/period		96,911	304,868	660,628	172,947	610,424

The accompanying notes form part of the Combined Financial Information.

C. NOTES TO COMBINED FINANCIAL INFORMATION

1. SIGNIFICANT ACCOUNTING POLICIES

(a) *Statement of compliance*

The Combined Financial Information set out in this report has been prepared in accordance with IFRSs, which collective term includes International Accounting Standards and related interpretations, promulgated by the IASB. Further details of the significant accounting policies adopted are set out below.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Combined Financial Information, the Group has adopted all these new and revised IFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period ended 30 June 2010. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning 1 January 2010 are set out in Note 39.

The Combined Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

The accounting policies set out below have been applied consistently to all periods presented in the Combined Financial Information.

The Corresponding Financial Information for the six months ended 30 June 2009 has been prepared in accordance with the same basis and accounting policies adopted in respect of the Combined Financial Information.

(b) *Basis of preparation and presentation*

The Combined Financial Information comprises the Company and its subsidiaries and has been prepared using the merger basis of accounting as if the Group had always been in existence, as further explained in Section A.

Details of the companies comprising of the Group that are subject to statutory audit during the Relevant Period and the names of the respective auditors are set out below:

Name of company	Financial period	Statutory auditors
Guangdong Yashili Group Co., Ltd. (廣東雅士利集團有限公司)	Year ended 31 December 2007	Reanda Certified Public Accountants Co., Ltd. *(i)* (利安達信隆會計師事務所)
Guangdong Yashili Group Joint Stock Co., Ltd. (廣東雅士利集團股份有限公司) .	Year ended 31 December 2008	Reanda Certified Public Accountants Co., Ltd. *(i)* (利安達信隆會計師事務所)
	Year ended 31 December 2009	KPMG Huazhen *(i)* (畢馬威華振會計師事務所)
Scient (Guangzhou)	Year ended 31 December 2007	Guangdong Zhongxinghua Certified Public Accountants Co., Ltd. *(i)* (廣東中興華會計師事務所)
	Year ended 31 December 2008	Guangdong Hongri Certified Public Accountants *(i)* (廣東紅日會計師事務所)
	Year ended 31 December 2009	KPMG Huazhen *(i)* (畢馬威華振會計師事務所)

Name of company	Financial period	Statutory auditors
Yashili (Heilongjiang)	Years ended 31 December 2007 and 2008	Reanda Certified Public Accountants Co., Ltd. *(i)* (利安達信隆會計師事務所)
	Year ended 31 December 2009	KPMG Huazhen *(i)* (畢馬威華振會計師事務所)
Yashili (Zhengzhou)	Period from 2 March 2007 (date of establishment) to 31 December 2007 and year ended 31 December 2008	Reanda Certified Public Accountants Co., Ltd. *(i)* (利安達信隆會計師事務所)
	Year ended 31 December 2009	KPMG Huazhen *(i)* (畢馬威華振會計師事務所)
Yashili (Shanxi)	Year ended 31 December 2007	Reanda Certified Public Accountants Co., Ltd. *(i)* (利安達信隆會計師事務所)
	Year ended 31 December 2008	Shanxi Kaiyuan Certified Public Accountants Co., Ltd. *(i)* (山西開元會計師事務所)
	Year ended 31 December 2009	KPMG Huazhen *(i)* (畢馬威華振會計師事務所)
Bisheng	Period from 30 May 2007 (date of establishment) to 31 December 2007 and year ended 31 December 2008	Reanda Certified Public Accountants Co., Ltd. *(i)* (利安達信隆會計師事務所)
	Year ended 31 December 2009	KPMG Huazhen *(i)* (畢馬威華振會計師事務所)
Yuqian.	Period from 4 January 2009 (date of establishment) to 31 December 2009	KPMG Huazhen *(i)* (畢馬威華振會計師事務所)
Yashili (Shanghai).	Year ended 31 December 2009	Shanghai Yuanzhi Certified Public Accountants Co., Ltd. *(i)* (上海元智會計師事務所)

(i) The official names of these entities are in Chinese. The English translation of the names is for reference only.

(c) ***Basis of measurement***

The Combined Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand except for per share data. RMB is the Company's functional and presentation currency. The Combined Financial Information is prepared on the historical cost basis except that financial assets at fair value through profit or loss are stated at fair value as explained in Note 1(g). The methods used to measure fair value are set out in Note 2.

(d) ***Use of estimates and judgements***

The preparation of the Combined Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of IFRSs that have significant effect on the Combined Financial Information and estimates with a significant risk of material adjustment are discussed in Note 38.

(e) ***Consolidation and combination***

(i) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial information of subsidiaries is included in the Combined Financial Information from the date that control commences until the date that control ceases.

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the combined balance sheet within equity, separately from equity attributable to the equity holders of the Company. Non-controlling interests in the results of the Group are presented on the face of the combined income statements and the combined statements of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year/period between non-controlling interests and the equity holders of the Company.

Profit or loss and each component of other comprehensive income are attributed to the equity holder of the Company and to the non-controlling interests. Total comprehensive income is attributed to the equity holder of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in an interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the controlling and non-controlling interests is adjusted to reflect the changes in their relative interests in the subsidiary, and any difference between the fair value of consideration paid or received and the amount by which the non-controlling interests is adjusted is recognised directly in equity and attributed to the equity holder of the Company

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses.

(ii) Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Under the acquisition method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Transaction costs in connection with a business combination are expensed as incurred.

Merger accounting has been adopted for common control combinations in which all of the combining entities were ultimately controlled by the same party or parties both before and after the business combination, and that control was not transitory.

The Combined Financial Information incorporates the financial information of the combining entities in which the common control combination occurred as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities have been combined using the existing book values from the controlling parties' perspective. No amount has been recognised in respect of goodwill or the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost at the time of the common control combination, to the extent of the continuation of the controlling interest.

(iii) Transactions eliminated on combination

All income, expenses and unrealised gains and losses resulting from intra-group transactions and intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated on combination in full.

(f) *Foreign currency*

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the "functional currency"). The functional currency of the Company and its major subsidiaries is RMB. The Combined Financial Information is presented in RMB (the "presentation currency").

(ii) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(iii) Foreign operations

The assets and liabilities of foreign operations are translated to RMB at exchange rates at the reporting date. The income and expenses of foreign operations, are translated to RMB at exchange rates at the dates of the transactions.

Foreign currency differences arising on translation are recognised in other comprehensive income. For the purposes of foreign currency translation, the net investment in a foreign operation includes foreign currency intra-group balances for which settlement is neither planned nor likely in the foreseeable future and foreign currency differences arising from such a monetary item is recognised in the combined statement of comprehensive income.

When a foreign operation is disposed of, in whole or in part, the relevant amount of the currency translation reserve is transferred to the profit or loss as part of the gain or loss on disposal.

(g) *Financial instruments*

(i) Non-derivative financial assets

All financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Group has the following non-derivative financial assets:

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise entrusted loans, trade receivables and prepayments and other receivables.

Cash and cash equivalent

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the combined cash flow statement.

(ii) Non-derivative financial liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group's non-derivative financial liabilities include loans and borrowings and trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Derivative financial instruments

The Group holds derivative financial instruments to manage its foreign currency exposure. Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting in which case recognition of any resultant gain or loss depends on the nature of the item being hedged. Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss. During the relevant period, the Group's derivative are not qualified as effective cash flow hedging. The gain or loss on remeasurement to fair value is recognised immediately to profit or loss. Related financial assets/liabilities were recognised/derecognised on the date the Group commits to purchase/sell the contract or they expire.

(h) ***Property, plant and equipment***

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (Note 1(m)(ii)).

Cost includes expenditures that are directly attributable to the acquisition of an asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Construction in progress represents property, plant and equipment under construction, and is stated at cost less impairment losses (Note 1(m)(ii)).

Cost comprises direct costs of construction during the construction period. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when all of the activities necessary to prepare the assets for their intended use are substantially complete.

(ii) Reclassification to investment properties

When the use of a property changes from owner-occupied to investment properties, the property is reclassified as investment properties.

(iii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day serving of property, plant and equipment are recognised in profit and loss as incurred.

(iv) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment less their estimated residual value. Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of the lease and their estimated useful lives.

The estimated useful lives of other property, plant and equipment are as follows:

• Plant and buildings	13–20 years
• Machinery and equipment	5–10 years
• Motor vehicle	5 years
• Office equipment and other equipment	5 years

Depreciation methods, useful life and residual value are reassessed at each reporting date.

(i) ***Intangible assets***

Intangible assets comprise purchased and customised software which are stated at cost less any impairment losses and amortised on the straight-line basis over its estimated useful life of five years.

(j) *Investment properties*

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

(i) Recognition and measurement

Items of investment properties are measured at cost less accumulated depreciation and impairment losses (Note 1(m)(ii)).

Cost includes expenditures that are directly attributable to the acquisition of an asset.

(ii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of investment properties less their estimated residual value. The estimated useful lives range from 27.5 to 47 years.

Depreciation methods, useful life and residual value are reassessed at each reporting date.

(k) *Lease prepayments*

Lease prepayments represent cost of land use rights paid to the PRC government authorities. Land use rights are stated as cost less accumulated amortisation and impairment losses (Note 1(m)(ii)). Amortisation is recognised in profit or loss on a straight-line basis over the respective period of the rights.

(l) *Inventories*

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In case of manufactured inventories and work in progress, cost includes an appropriate share of the production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(m) *Impairment of assets*

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that a loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease in impairment loss is reversed through profit or loss.

The Group considers evidence of impairment of receivables at both specific asset and collective level. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax asset, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of assets or cash-generating unit is the greater of its value in use and its fair value less cost to sell. 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 risks specific to the assets.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) ***Employee benefits***

(i) Short term employee benefits

Salaries, wages, annual bonuses and staff welfare are accrued in the year in which the associated services are rendered by employees of the Group.

(ii) Defined contribution retirement plans

Obligations for contributions to local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss when they are due, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(iv) Share-based payment transactions

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a equity-settled share-based payment reserve within equity. The fair value is measured at grant date by using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year/period of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the equity-settled share-based payment reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the equity-settled share-based payment reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the equity-settled share-based payment reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained earnings).

(o) ***Provisions and contingent liabilities***

Provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) ***Turnover***

(i) Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates and excluding value added tax or other sales taxes. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. If it is probable that discounts will be granted and the amount can be measured reliably, the discount is recognised as a reduction of revenue as the sales are recognised.

(ii) Rental income

Rental income from investment properties is recognised in profit or loss on a straight-line basis over the term of the lease.

(q) ***Government grants***

Government grants are recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to the grant. A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A grant that compensates the Group for expenses to be incurred in the subsequent periods is recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Group for expenses incurred is recognised in profit or loss immediately.

(r) ***Operating lease payment***

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expenses, over the term of the lease.

(s) ***Borrowing costs***

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(t) ***Finance income and expenses***

Finance income comprises interest income and increase in fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, decreases in fair value financial assets at fair value through profit or loss.

Foreign currency gains and losses are reported on a net basis.

(u) ***Research and development costs***

Expenditures on an internal research and development project are classified into expenditures on the research phase and expenditures on the development phase. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products or processes before the start of commercial production or use.

Expenditures on research phase are recognised in profit or loss when incurred. Expenditures on development phase are capitalised if development costs can be measured reliably, the product or process is technically and commercially feasible, and the Group intends to and has sufficient resources to complete development. Capitalised development costs are stated at cost less impairment losses (see Note 1(m)(ii)). Other development expenditures are recognised as expenses in the period in which they are incurred.

(v) ***Income tax expense***

Income tax expense comprises current tax and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the temporary difference arising from the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(w) ***Discontinued operation***

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

(x) ***Related parties***

For the purposes of the Combined Financial Information, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or, a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individual;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(y) *Segment reporting*

Operating segments, and the amounts of each segment item reported in the Combined Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2. DETERMINATION OF FAIR VALUE

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) *Property, plant and equipment*

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

(b) *Investment properties*

The fair values of investment properties for disclosure purpose are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

(c) *Non-derivative financial instruments*

Fair value of non-derivative financial instruments carried at amortised costs, which is determined for disclosure purpose, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted closing bid price at the reporting date.

(d) *Derivatives*

The fair value of forward exchange contracts is based on their quoted market prices, if available. If a quoted market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract price using a risk-free interest rate (based on government bonds).

Fair value reflects the credit risk of the instrument and includes adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

(e) *Inventories*

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

3. OPERATING SEGMENTS

The Group manages its business by product lines. In a manner consistent with the way in which information is reported internally to the Group's senior executive management which has been identified as the chief operating decision-maker for the purpose resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments:

- Production and sale of Yashily pediatric milk formula products: this segment includes development, manufacture and sale of Yashily pediatric milk formula products and milk formula for pregnant women in the PRC.
- Production and sale of Scient pediatric milk formula products: this segment includes development, manufacture and sale of Scient pediatric milk formula products and milk formula for pregnant women in the PRC.
- Production and sale of Yashily nutrition products: this segment includes development, manufacture and sale of milk powder for adults and teenagers, soybean milk, rice flour and cereal products in the PRC.

Other operations include the production and sale of packing materials, which mainly serve the Group's internal use, and sale of surplus raw materials. The results of these operations are included in the "Others" column.

For the purpose of assessing segment performance and allocating resources among segments, the senior executive management team assesses the performance of the operating segments based on a measure of "reportable segment profit" i.e. "revenue less cost of sales and selling and distribution expenses". The Group does not allocate other revenue, other net income or loss, finance costs, expenses other than selling and distribution expenses to its segments, as the senior executive management does not use this information to allocate resources to or evaluate the performance of the operating segments. Segment assets and liabilities are not regularly reported to the Group's senior executive management and therefore information of reportable segment assets and liabilities are not presented in the Combined Financial Information.

(a) *Information about reportable segments*

Year ended 31 December 2007

	Yashily **pediatric milk formula products**	***Scient*** **pediatric milk formula products**	***Yashily*** **nutrition products**	**Others**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Revenue from external customers	1,415,196	912,825	506,496	97,802	2,932,319
Inter-segment revenue	—	—	—	41,935	41,935
Reportable segment revenue	1,415,196	912,825	506,496	139,737	2,974,254
Reportable segment profit	276,012	234,900	94,840	8,297	614,049
Segment depreciation and amortisation	5,053	3,176	4,055	3,067	15,351

Year ended 31 December 2008

	Yashily pediatric milk formula products	*Scient* pediatric milk formula products	*Yashily* nutrition products	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	1,511,809	754,968	454,184	30,632	2,751,593
Inter-segment revenue	—	—	—	129,744	129,744
Reportable segment revenue	1,511,809	754,968	454,184	160,376	2,881,337
Reportable segment profit/(loss)	274,907	(4,675)	68,515	4,116	342,863
Segment depreciation and amortisation	19,576	13,539	4,875	1,667	39,657

Year ended 31 December 2009

	Yashily pediatric milk formula products	*Scient* pediatric milk formula products	*Yashily* nutrition products	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	1,540,420	521,283	507,599	16,671	2,585,973
Inter-segment revenue	—	—	—	99,777	99,777
Reportable segment revenue	1,540,420	521,283	507,599	116,448	2,685,750
Reportable segment profit/(loss)	520,734	(11,550)	181,024	3,217	693,425
Segment depreciation and amortisation	23,571	20,890	6,985	2,216	53,662

Six months ended 30 June 2009 (unaudited)

	Yashily pediatric milk formula products	*Scient* pediatric milk formula products	*Yashily* nutrition products	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	815,420	283,987	273,695	3,104	1,376,206
Inter-segment revenue	—	—	—	53,532	53,532
Reportable segment revenue	815,420	283,987	273,695	56,636	1,429,738
Reportable segment profit	238,989	6,197	93,481	496	339,163
Segment depreciation and amortisation	11,448	9,284	3,320	964	25,016

Six months ended 30 June 2010

	Yashily pediatric milk formula products	*Scient* pediatric milk formula products	*Yashily* nutrition products	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	840,511	319,210	208,928	6,805	1,375,454
Inter-segment revenue	—	—	—	50,278	50,278
Reportable segment revenue	840,511	319,210	208,928	57,083	1,425,732
Reportable segment profit	271,278	38,260	75,754	1,084	386,376
Segment depreciation and amortisation	12,908	10,690	3,683	1,210	28,491

(b) ***Reconciliations of reportable segment revenues and profit or loss***

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Revenue					
Total reportable segment revenue	2,974,254	2,881,337	2,685,750	1,429,738	1,425,732
Elimination of inter-segment revenue	(41,935)	(129,744)	(99,777)	(53,532)	(50,278)
Discontinued operation *(Note 4)*	(40,158)	—	—	—	—
Combined revenue	2,892,161	2,751,593	2,585,973	1,376,206	1,375,454
Profit or loss					
Reportable segment profit	614,049	342,863	693,425	339,163	386,376
Other revenue and net income	20,012	15,999	34,834	18,401	34,839
Discontinued operation *(Note 4)*	(2,220)	—	—	—	—
Unallocated amounts:					
Selling and distribution expenses	(65,760)	(114,048)	(95,007)	(46,426)	(46,477)
Administrative expenses	(66,590)	(137,272)	(129,078)	(59,311)	(80,234)
Net finance income/(costs)	3,193	(13,480)	(18,666)	(10,224)	(3,223)
Other expenses	(8,768)	(795,938)	(14,221)	(9,544)	(6,313)
Combined profit/(loss) before income tax	**493,916**	**(701,876)**	**471,287**	**232,059**	**284,968**

(c) ***Geographical information***

The Group's revenue is substantially from domestic sales during the Relevant Period. The export sales amounted to RMB1,552,000 and RMB2,242,000 for the years ended 31 December 2007 and 2008 respectively. No export sales were recorded in the year ended 31 December 2009 and the six months ended 30 June 2010. The Group's senior executive management periodically review the geographic analysis of the revenue derived from Yashily and Scient pediatric milk formula products, which summarises the revenue by different tiers of cities where the Group's customers operate. The classification of the tiers is set out below:

- First-tier cities generally include direct-controlled municipalities, the highest level of cities under the direct administration of the PRC central government, and provincial capital cities, including but not limited to Beijing, Shanghai, Nanchang, Chongqing, Shijiazhuang and Guangzhou, as there is no official classification, such classification is determined based on our Directors' knowledge and experience;

- Second-tier cities generally refer to prefecture-level cities, the administrative division of the PRC, ranking below a province and above a county in China's administrative structure, including but not limited to Dongguan, Nanyang, Shenzhen, Jiujiang and Foshan, as there is no official classification, such classification is determined based on our Directors' knowledge and experience;

- Third-tier cities generally refer to county-level cities, the county-level administrative divisions of the PRC, including but not limited to Jinjiang, Yunmeng, Bozhou, Kunshan and Luohe, as there is no official classification, such classification is determined based on our Directors' knowledge and experience.

Yashily pediatric milk formula products

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Revenue derived from					
— First-tier cities	304,524	347,698	304,060	143,259	152,118
— Second-tier cities	771,430	830,306	865,763	475,371	467,686
— Third-tier cities and others	339,242	333,805	370,597	196,790	220,707
Total	1,415,196	1,511,809	1,540,420	815,420	840,511

Scient pediatric milk formula products

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue from					
— First-tier cities	217,368	165,558	95,010	54,140	48,440
— Second-tier cities	620,133	528,027	379,077	205,654	235,105
— Third-tier cities and others	75,324	61,383	47,196	24,193	35,665
Total	912,825	754,968	521,283	283,987	319,210

4. DISCONTINUED OPERATION

On 31 December 2007 the Group sold its wholly owned subsidiary Haoweijia Food to the Controlling Equity Owners following the strategy of focusing the Group's business on production and sale of nourishment products.

	Year ended 31 December 2007
	RMB'000
Results of discontinued operation	
Turnover *(Note 3(b))*	40,158
Expenses	(37,938)
Results from operating activities *(Note 3(b))*	2,220
Income tax expense *(Note 11)*	(744)
Results from operating activities, net of income tax	1,476
Loss on sale of discontinued operation	(2,030)
Loss for the year	(554)

	Year ended 31 December 2007	Year ended 31 December 2008
	RMB'000	RMB'000
Cash flows from discontinued operation		
Net cash generated from operation activities	5,428	—
Net cash used in financing activities	(5,000)	—
Net cash (used in)/generated from investing activities	(3,990)	10,800
Net cash (used in)/generated from discontinued operation	(3,562)	10,800

	Year ended 31 December 2007
	RMB'000
Effect of disposal on the combined balance sheet of the Group	
Property, plant and equipment *(Note 15)*	5,807
Inventories	15,177
Trade and other receivables	9,521
Cash and cash equivalents	3,990
Trade and other payables	(21,665)
Net assets and liabilities	12,830
Cash and cash equivalents disposed of and net cash outflow in 2007	(3,990)
Consideration received, satisfied in cash in 2008	10,800

5. ACQUISITIONS OF SUBSIDIARY AND NON-CONTROLLING INTERESTS

(a) *Acquisition of Scient (USA)*

On 31 December 2008 the Group obtained the control of Scient (USA) by acquiring entire equity interest for USD700,000 in cash (equivalent to RMB4,790,000), which was determined by arm's length negotiation with reference to the carrying value of Scient (USA)'s net assets. The directors of the Company considered the purpose of the acquisition was to obtain an additional 1% equity interest in Scient (Guangzhou) held by Scient (USA). Thus the Group considered the substance of this business combination was acquisition of non-controlling interests in Scient (Guangzhou).

Scient (USA) is an investment holding subsidiary of the Group and all its revenue was derived from the rental income from its property for the year ended 31 December 2008. Scient (USA) was acquired on 31 December 2008 therefore it did not contribute any revenue or profit to the Group for the year ended 31 December 2008. If the acquisition had occurred on 1 January 2008, directors of the Company estimated that the Group's combined other revenue would have been RMB17,106,000, and the Group's combined net loss for the year ended 31 December 2008 would have been RMB614,806,000.

The following summarises the nature of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

Consideration transferred:

	RMB'000
Cash	4,790

Identifiable assets acquired and liabilities assumed:

	RMB'000
Investment properties *(Note 17)*	1,769
Other investment *(Note)*	2,063
Cash and cash equivalents	950
Other receivables	76
Other payables	(68)
Total net identifiable assets	4,790

Note: Other investment represents 1% equity interest in Scient (Guangzhou).

The acquisition increased the Group's ownership interest in Scient (Guangzhou) from 74% to 75%. The carrying amounts of Scient (Guangzhou)'s net assets in the combined financial statements on the date of the acquisition was RMB5,121,000. The Group recognised a decrease in non-controlling interest of RMB51,000 and a decrease in other capital reserve within equity of RMB2,012,000.

(b) *Acquisition of Yashili (Shanghai)*

On 31 July 2009, the Group obtained the control of Yashili (Shanghai) by acquiring entire equity interests for RMB2,000,000, which was determined by the arm's length negotiation with reference to the carrying value of Yashili (Shanghai)'s net assets. Yashili (Shanghai)'s principal operating activities are the sale of Yashily and Haoweijia's products. The Group's purpose of the combination is to strengthen the sale in the city of Shanghai and the nearby area.

For the five months ended 31 December 2009, Yashili (Shanghai) contributed revenue of RMB8,392,000, after eliminating the intra-group transactions, and profit of RMB208,000. If the acquisition had been occurred on 1 January 2009, directors of the Company estimated that the Group's combined revenue would have been RMB2,603,074,000, after eliminating the intra-group transactions, and the Group's combined profit for the year ended 31 December 2009 would have been RMB402,366,000.

The following summarises the nature of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

Consideration transferred:

	RMB'000
Cash	2,000

Identifiable assets acquired and liabilities assumed:

	RMB'000
Inventories	1,848
Cash and cash equivalents	175
Trade and other receivables	30,126
Trade and other payables	(30,149)
Total net acquired assets	2,000

The trade receivables comprised gross contractual amounts due from customers of RMB28,338,000, of which nil amount was expected to be uncollectible at the acquisition date.

(c) ***Acquisition of non-controlling interests in Scient (Guangzhou)***

On 1 July 2009 the Group acquired an additional 20% equity interest in Scient (Guangzhou) for USD200,000 in cash (equivalent to RMB1,366,000), which was determined by arm's length negotiation with reference to the carrying amount of Scient (Guangzhou)'s net assets, increasing its equity interest in Scient (Guangzhou) from 75% to 95%. The carrying amount of Scient (Guangzhou)'s net assets in the combined financial statements on the date of the acquisition was RMB7,605,000. The Group recognised a decrease in non-controlling interest of RMB1,521,000 and an increase in other capital reserve of RMB155,000.

The following table summarises the effect of the Group's share of equity interest in Scient (Guangzhou) during the years ended 31 December 2008 and 2009:

	Years ended 31 December	
	2008	2009
	RMB'000	RMB'000
The Group's share of equity interest at 1 January	147,191	3,841
Effect of increase in the Group's share of equity interest	51	1,521
Effect of dividend declared	(345)	—
Share of comprehensive income	(143,056)	(41,770)
The Group's share of equity interest at 31 December	3,841	(36,408)

(d) ***Acquisition of Victory Trading***

On 25 June 2010, the Group obtained the control of Victory Trading by acquiring the entire equity interest for RMB14,200,000, which was determined by arm's length negotiation with reference to the carrying amount of Victory Trading's net assets at the acquisition date. Victory Trading was one of the Group's major suppliers before the acquisition. Purchases from Victory Trading accounted for 8.32% and 35.31% of the Group's total external purchase of raw materials for the year ended 31 December 2009 and six months ended 30 June 2010 respectively.

If the acquisition had occurred on 1 January 2010, directors of the Company estimated that the Group's combined revenue would have been the same while and the Group's combined profit for the period ended 30 June 2010 would have been RMB248,340,000.

The following summarises the nature of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

Consideration transferred:

	RMB'000
Cash	14,200

Identifiable assets acquired and liabilities assumed:

	RMB'000
Cash and cash equivalents	26,499
Restricted bank deposits	114,674
Inventories	85,747
Prepayments and other receivables	5,482
Property, plant and equipment *(note 15)*	720
Deferred tax assets *(note 19(b))*	77
Bank loans	(100,535)
Trade and other payables *(i)*	(116,210)
Income tax payables *(note 19(a))*	(2,254)
Total net acquired assets	14,200

(i) The amount included derivative financial liabilities amounting to RMB432,000, which was the fair value of certain exchange forward contracts entered into by Victory Trading.

6. LIQUIDATION OF SUBSIDIARIES

In March 2008, the Group liquidated two wholly-owned subsidiaries, Yashili Dairy and Yashili Nutrition. The two liquidated subsidiaries were not classified as discontinued operations as they had remained dormant with no revenue during the Relevant Period before the liquidation and did not fulfil the relevant requirements under IFRS 5. The related assets and liabilities of the liquidated subsidiaries were transferred to Yashili (Guangdong) upon liquidation. Therefore, the liquidation had no impact on the Group's financial position.

7. TURNOVER

The Group is principally engaged in the manufacturing and sales of dairy and nourishment products.

Turnover represents the sales value of goods supplied to customers. Turnover excludes sales taxes and surcharge and is after deduction of any trade discounts.

The Group's customer base is diversified and no revenue from transactions with a single customer amounted to 10% or more of the Group's total revenue during the Relevant Period.

8. OTHER REVENUE

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Government grants *(i)*	19,273	12,105	19,640	14,941	6,742
Compensation income *(ii)*	256	3,418	8,892	2,832	2,169
Write-off of trade payables *(iii)*	—	—	3,651	—	237
Rental income	—	986	1,483	603	1,866
Reversal of input VAT transferred-out *(iv)*	—	—	—	—	22,808
Others	622	532	1,040	6	1,086
	20,151	17,041	34,706	18,382	34,908

(i) Government grants in form of cash subsidies were received from the local government and they are as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Compensation for expenses incurred	19,273	12,105	12,834	9,990	801
Compensation for acquisition of assets *(Note 29)*	—	—	1,855	—	3,223
Taxes refund	—	—	4,951	4,951	2,718
	19,273	12,105	19,640	14,941	6,742

(ii) Compensation income mainly represented forfeiture received from distributor customers for cross territorial sales that breached the terms of distribution agreements during the Relevant Period. Compensation income for the year ended 31 December 2009 also included RMB5,920,000 recovered from a property developer through the legal proceeding finalised in 2009 for the late delivery of a property purchased by Scient (Guangzhou).

(iii) Trade payables amounting to RMB2,274,000 due to a domestic supplier as discussed in section C Note 24(i) were written off according to the court verdicts dated 4 November 2009. These payables were related to purchase of base milk powder which was subsequently proved to be contaminated by melamine. The remaining written-off payables in 2009 were due to a domestic supplier and an overseas suppliers mainly caused by shortage of quantity and damage during transportation.

(iv) As approved by the local tax bureau in May 2010, Scient (Guangzhou) reversed the input VAT transferred-out of RMB22,808,000 incurred during the Melamine Incident and the amount was recognised as other revenue.

9. OTHER EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Losses arising from the Melamine Incident *(i)*	—	787,117	1,324	756	994
Other loss on disposal of inventory *(ii)*	7,291	3,487	9,030	6,258	3,353
Others	1,477	5,334	3,867	2,530	1,966
	8,768	795,938	14,221	9,544	6,313

(i) According to a notice dated 16 September 2008 issued by the State General Administration of Quality Supervision, Inspection and Quarantine, certain of Group's products were found to be contaminated by melamine (the "Melamine Incident"). In this connection, the Group recalled and destroyed all its dairy products which were manufactured prior to 14 September 2008. Details of the losses directly attributable to the Melamine Incident are set out below:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Write-down of inventory	—	456,854	—	—	—
Inventory disposal loss	—	159,711	466	—	—
Input VAT transfer-out	—	108,098	102	—	—
Others*	—	62,454	756	756	994
	—	787,117	1,324	756	994

* Others mainly represented medical compensation payment of RMB61,212,000 to Dairy Association of China for the year ended 31 December 2008. Remaining other expenses represented inventory disposal handling charges.

(ii) Other loss on disposal of inventory mainly represented losses arising from stocktake loss, disposal of dampened or deteriorated inventory and disposal of packaging material.

10. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is arrived at after charging/(crediting):

(a) ***Net finance (income)/costs***

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Finance income					
Interest income	(5,525)	(5,679)	(3,362)	(829)	(2,765)
Net foreign exchange gain	—	(9)	—	—	—
Net realised and unrealised gains on trading assets	(9,295)	(2,139)	(23)	(23)	(38)
Subtotal	(14,820)	(7,827)	(3,385)	(852)	(2,803)
Finance costs					
Interest expense on borrowings wholly repayable within five years	11,616	21,307	23,848	12,873	6,022
Less: Capitalised interest expense	—	—	(1,813)	(1,813)	—
Interest expense	11,616	21,307	22,035	11,060	6,022
Net foreign exchange loss	11	—	16	16	4
Subtotal	11,627	21,307	22,051	11,076	6,026
Net finance (income)/costs	(3,193)	13,480	18,666	10,224	3,223

(b) *Staff costs* *(i)*

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries, wages, bonuses and benefits	218,307	175,772	156,611	72,059	73,853
Contributions to defined contribution retirement plan	5,279	10,572	9,599	4,419	5,808
Equity-settled share-based payment expenses *(Note 32)*	—	—	2,853	1,427	1,430
	223,586	186,344	169,063	77,905	81,091

Staff costs included directors' and senior management's remuneration.

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the local authority whereby the PRC subsidiaries are required to make contributions to the Scheme based on certain percentages of the eligible employee's salaries.

The local government authority is responsible for the entire pension obligations payable to the retired employees. The Group has no other obligations for payments of retirement and other post-retirement benefits of employees other than the contributions described above.

(c) *Other items*

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Cost of inventories *(i) (Note 21)*	1,810,238	2,319,054	1,266,493	740,863	652,831
Depreciation					
— Property, plant and equipment *(i)*	18,800	47,553	65,218	30,445	34,032
— Investment properties *(Note 17)*	—	59	301	126	625
Amortisation					
— Lease prepayments *(Note 18)*	1,073	1,260	2,810	1,059	1,216
— Intangible assets *(Note 16)*	237	435	900	250	956
— Other non-current assets	784	752	338	314	360
Operating lease charges					
— Hire of plant, machinery and properties	6,061	12,678	13,772	7,279	5,831
Auditors' remuneration	421	1,200	550	321	3,667
Research and development costs	432	996	950	629	355
Net loss/(gain) on disposal of plant and equipment	139	1,042	(128)	(19)	69
Impairment loss/(write-back)					
— on trade receivables *(Note 22)*	1,822	1,277	168	—	2,085
— on other receivables	(987)	794	(166)	—	(239)
Increase in provision for sales return *(Note 28)*	—	46,665	1,923	—	—
Rentals receivable from investment properties less direct outgoings *(ii)*	—	(752)	(1,062)	(477)	(1,245)

(i) Cost of inventories includes RMB45,713,000, RMB72,119,000, RMB77,577,000, RMB38,653,000 and RMB40,169,000 for the years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2009 and 2010 respectively relating to staff costs and depreciation, which amounts are also included in the respective total amounts disclosed above or in Note 10(b) for each of these types of expenses.

(ii) Direct outgoing of investment properties are RMB Nil, RMB234,000, RMB421,000, RMB126,000 and RMB621,000 for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 respectively.

11. INCOME TAX EXPENSE

(a) *Income tax expense in the combined income statements represents:*

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Current tax — PRC income tax					
Provision for the year/period	23,299	42,680	5,275	6,609	17,994
Under/(over)-provision in respect of prior year	13	—	—	—	(369)
Deferred tax — PRC income tax	157	(129,782)	63,599	27,862	26,342
Income tax expense from continuing operations	23,469	(87,102)	68,874	34,471	43,967
Income tax expense from discontinued operation *(Note 4)*	744	—	—	—	—
Total income tax expense	24,213	(87,102)	68,874	34,471	43,967

(b) *Reconciliation between income tax expenses and accounting profit/(loss) at applicable tax rates:*

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (Unaudited)**	**RMB'000**
Profit/(loss) before tax from					
— continuing operations	493,916	(701,876)	471,287	232,059	284,968
— discontinued operation	190	—	—	—	—
	494,106	(701,876)	471,287	232,059	284,968
Notional tax on profit/(loss) before taxation calculated at the standard tax rate applicable at the jurisdiction concerned (i) to (iii)	163,055	(175,469)	117,822	58,015	71,242
Under/(over)-provision in prior year	13	—	—	—	(369)
Effect of non-deductible expenses	3,216	1,443	2,654	1,284	1,773
Effect on change in tax rates *(iii)*	(243)	—	—	—	—
Effect of preferential tax rates on current tax payable *(iv)*	(141,020)	(36,603)	—	(3,798)	(17,105)
Effect of tax rate differential *(iv)*	(994)	83,300	(62,502)	(23,787)	(12,018)
Effect of unrecognised temporary differences and tax losses	1,463	41,203	10,900	2,757	444
Effect of utilisation of unrecognised temporary differences in prior year	(1,277)	(976)	—	—	—
Income tax expense	24,213	(87,102)	68,874	34,471	43,967

(i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) No provision was made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax for the years ended 31 December 2007, 2008, and 2009 and the six months ended 30 June 2010.

(iii) Before 1 January 2008, the PRC statutory income tax rate was 33%. With effect from 1 January 2008, the income tax rate was revised to 25%, pursuant to the Corporate Income Tax Law of the PRC passed by the Tenth National People's Congress on 16 March 2007 (the "New Tax Law"). There are transitional preferential tax treatments available under the New Tax Law and its relevant regulations.

(iv) Some of the Group's PRC subsidiaries are entitled to the following PRC preferential tax treatments:

Yashili (Guangdong), being a manufacturing foreign investment enterprise ("FIE"), was entitled to a two-year full exemption from income tax followed by a three-year 50% reduction in income tax ("2+3 tax holiday"). Yashili (Guangdong) started its tax holiday in 2006 and the tax holiday is grandfathered. As a result, it is exempted from income tax for 2007 and is subject to income tax at 12.5% and 25% from 2008 to 2010 and from 2011 onwards, respectively.

Yashili (Heilongjiang), being a manufacturing enterprise established in Tailai County which was regarded as a impoverished area, was entitled to three-year full exemption from income tax from its commencement of operation in 2005. As a result, it is exempted from income tax for 2007.

Scient (Guangzhou), being a manufacturing FIE established in Guangzhou Economic and Technological Development Zone, was entitled to both the 2+3 tax holiday and a preferential tax rate of 15%. According to the New Tax Law and its relevant regulations, an enterprise which was subject to the reduced tax rate of 15% before, the transitional income tax rates are 18%, 20%, 22%, 24% and 25% for 2008, 2009, 2010, 2011 and 2012 onwards, respectively ("transitional rates"). Scient (Guangzhou) started its tax holiday in 2004 and the tax holiday is grandfathered. Accordingly, it is subject to income tax at 7.5%, 9%, 20%, 22%, 24% and 25% for 2007, 2008, 2009, 2010, 2011 and 2012 onwards, respectively.

In addition, Scient (Guangzhou) is entitled to another 2+3 tax holiday on its additional reinvestment of profits in 2005. The tax holiday is applicable to taxable income derived from its new plant resulting from the additional reinvestment. This additional tax holiday is grandfathered. According to the New Tax Law and its relevant regulations, the tax holiday is required to start in 2008. Therefore, taxable income derived from the new plant is exempted from income tax for 2008 and 2009 and is subject to income tax at 11%, 12%, 12.5% and 25% for 2010, 2011, 2012 and from 2013 onwards, respectively.

Yashili (Zhengzhou), being a manufacturing FIE established in Zhengzhou Economic and Technological Development Zone, was entitled to both the 2+3 tax holiday and a preferential tax rate of 15%. Its tax holiday is grandfathered and is entitled to the abovementioned transitional rates. Yashili (Zhengzhou) sustained a tax loss for 2007 and is required to start its tax holiday in 2008. As such, it is exempted from income tax for 2008 and 2009 and is subject to income tax at 11%, 12%, 12.5% and 25% for 2010, 2011, 2012 and from 2013 onwards, respectively.

12. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December 2007						
	Directors' fees	Salaries, allowances and benefits in kind	Contribution to defined contribution retirement plans	Discretionary bonuses	Sub-total	Equity-settled share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Mr. Zhang Likun	—	125	4	—	129	—	129
Mr. Zhang Liming	—	84	4	—	88	—	88
Mr. Zhang Lidian	—	125	4	—	129	—	129
Mr. Zhang Libo	—	125	4	—	129	—	129
Mr. Wu Xiaonan	—	60	—	—	60	—	60
Sub-total	—	519	16	—	535	—	535
Non-executive directors							
Mr. Luo Yi	—	—	—	—	—	—	—
Mr. Zhang Chi	—	—	—	—	—	—	—
Sub-total	—	—	—	—	—	—	—
Independent non-executive directors							
Mr. Chen Yongquan	—	—	—	—	—	—	—
Mr. Yu Shimao	—	—	—	—	—	—	—
Mr. Samuel King On Wong	—	—	—	—	—	—	—
Sub-total	—	—	—	—	—	—	—
Total	—	519	16	—	535	—	535

	Year ended 31 December 2008						
	Directors' fees	Salaries, allowances and benefits in kind	Contribution to defined contribution retirement plans	Discretionary bonuses	Sub-total	Equity-settled share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Mr. Zhang Likun	—	282	5	180	467	—	467
Mr. Zhang Liming	—	201	4	102	307	—	307
Mr. Zhang Lidian	—	218	4	177	399	—	399
Mr. Zhang Libo	—	218	4	102	324	—	324
Mr. Wu Xiaonan	—	72	4	7	83	—	83
Sub-total	—	991	21	568	1,580	—	1,580
Non-executive directors							
Mr. Luo Yi	—	—	—	—	—	—	—
Mr. Zhang Chi	—	—	—	—	—	—	—
Sub-total	—	—	—	—	—	—	—
Independent non-executive directors							
Mr. Chen Yongquan	43	—	—	—	43	—	43
Mr. Yu Shimao	—	—	—	—	—	—	—
Mr. Samuel King On Wong	—	—	—	—	—	—	—
Sub-total	43	—	—	—	43	—	43
Total	43	991	21	568	1,623	—	1,623

	Year ended 31 December 2009						
	Directors' fees	Salaries, allowances and benefits in kind	Contribution to defined contribution retirement plans	Discretionary bonuses	Sub-total	Equity-settled share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Mr. Zhang Likun	—	360	4	240	604	—	604
Mr. Zhang Liming	—	264	4	136	404	—	404
Mr. Zhang Lidian	—	264	4	236	504	604	1,108
Mr. Zhang Libo	—	264	4	136	404	—	404
Mr. Wu Xiaonan	—	74	4	7	85	56	141
Sub-total	—	1,226	20	755	2,001	660	2,661
Non-executive directors							
Mr. Luo Yi	—	—	—	—	—	—	—
Mr. Zhang Chi	—	—	—	—	—	—	—
Sub-total	—	—	—	—	—	—	—
Independent non-executive directors							
Mr. Chen Yongquan	59	—	—	—	59	—	59
Mr. Yu Shimao	59	—	—	—	59	—	59
Mr. Samuel King On Wong	—	—	—	—	—	—	—
Sub-total	118	—	—	—	118	—	118
Total	118	1,226	20	755	2,119	660	2,779

	Six months ended 30 June 2009 (unaudited)						
	Directors' fees	Salaries, allowances and benefits in kind	Contribution to defined contribution retirement plans	Discretionary bonuses	Sub-total	Equity-settled share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Mr. Zhang Likun	—	180	1	—	181	—	181
Mr. Zhang Liming	—	132	1	—	133	—	133
Mr. Zhang Lidian	—	132	1	—	133	302	435
Mr. Zhang Libo	—	132	1	—	133	—	133
Mr. Wu Xiaonan	—	37	1	—	38	28	66
Sub-total	—	613	5	—	618	330	948
Non-executive directors							
Mr. Luo Yi	—	—	—	—	—	—	—
Mr. Zhang Chi	—	—	—	—	—	—	—
Sub-total	—	—	—	—	—	—	—
Independent non-executive directors							
Mr. Chen Yongquan	27	—	—	—	27	—	27
Mr. Yu Shimao	27	—	—	—	27	—	27
Mr. Samuel King On Wong	—	—	—	—	—	—	—
Sub-total	54	—	—	—	54	—	54
Total	54	613	5	—	672	330	1,002

	Six months ended 30 June 2010						
	Directors' fees	Salaries, allowances and benefits in kind	Contribution to defined contribution retirement plans	Discretionary bonuses	Sub-total	Equity-settled share-based payment expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Mr. Zhang Likun	—	180	4	—	184	—	184
Mr. Zhang Liming	—	132	4	—	136	—	136
Mr. Zhang Lidian	—	132	4	—	136	303	439
Mr. Zhang Libo	—	132	4	—	136	—	136
Mr. Wu Xiaonan	—	37	4	—	41	28	69
Sub-total	—	613	20	—	633	331	964
Non-executive directors							
Mr. Luo Yi	—	—	—	—	—	—	—
Mr. Zhang Chi	—	—	—	—	—	—	—
Sub-total	—	—	—	—	—	—	—
Independent non-executive directors							
Mr. Chen Yongquan	32	—	—	—	32	—	32
Mr. Yu Shimao	32	—	—	—	32	—	32
Mr. Samuel King On Wong	—	—	—	—	—	—	—
Sub-total	64	—	—	—	64	—	64
Total	64	613	20	—	697	331	1,028

During the Relevant Period, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in Note 13 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with highest emoluments, four are directors of the Company during the Relevant Period whose remuneration is disclosed in Note 12 above. The emoluments in respect of the other one are as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Salaries, allowance and benefits in kind	125	202	240	120	150
Contribution to defined contribution retirement plans	4	4	4	1	3
Discretionary bonuses	—	45	60	—	—
Total	129	251	304	121	153

14. EARNINGS/(LOSS) PER SHARE

Earnings/(loss) per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Relevant Period on the combined basis as disclosed in Section A.

15. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Plant and buildings	Machinery and equipment	Motor vehicles	Office and other equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
As at 1 January 2007	89,759	26,783	53,003	33,503	14,835	217,883
Addition	410,083	4,894	45,328	9,324	15,389	485,018
Transfer from construction in progress	(226,797)	200,101	26,687	—	9	—
Disposals	—	—	(9,210)	(423)	(88)	(9,721)
Assets included in discontinued operation *(Note 4)*	—	(4,100)	(4,282)	—	(159)	(8,541)
Transfer to investment properties	(11,713)	—	—	—	—	(11,713)
As at 31 December 2007	261,332	227,678	111,526	42,404	29,986	672,926
As at 1 January 2008	261,332	227,678	111,526	42,404	29,986	672,926
Addition	163,125	11,572	14,015	17,107	15,917	221,736
Transfer from construction in progress	(292,842)	91,590	195,422	—	5,830	—
Disposals	—	(26,543)	(1,905)	(3,149)	—	(31,597)
Transfer to investment properties	—	(540)	—	—	—	(540)
As at 31 December 2008	131,615	303,757	319,058	56,362	51,733	862,525
As at 1 January 2009	131,615	303,757	319,058	56,362	51,733	862,525
Addition	90,274	2,621	5,200	4,356	4,525	106,976
Transfer from construction in progress	(167,582)	152,875	12,715	—	1,992	—
Disposals	—	(50)	(10,338)	(15,007)	(5,730)	(31,125)
Transfer to investment properties	—	(32,092)	—	—	—	(32,092)
As at 31 December 2009	54,307	427,111	326,635	45,711	52,520	906,284
As at 1 January 2010	54,307	427,111	326,635	45,711	52,520	906,284
Addition	8,081	4,391	2,941	184	1,914	17,511
Acquisition from business combination *(Note 5(d))*	—	716	—	—	4	720
Transfer to intangible asset	(4,098)	—	—	—	—	(4,098)
Transfer from construction in progress	(13,948)	5,308	8,373	—	267	—
Disposals	—	—	(1,278)	(400)	(43)	(1,721)
Transfer to investment properties	—	(19,526)	—	—	—	(19,526)
Reclassification	—	(4,735)	(3,138)	3,700	4,173	—
As at 30 June 2010	44,342	413,265	333,533	49,195	58,835	899,170

The addition in construction in progress for the year ended 31 December 2009 included capitalised interest on borrowings of RMB1,813,000 at a capitalisation rate of 6.336%.

	Construction in progress	Plant and buildings	Machinery and equipment	Motor vehicles	Office and other equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated depreciation:						
As at 1 January 2007	—	(8,616)	(13,569)	(19,255)	(2,139)	(43,579)
Charge for the year	—	(2,459)	(7,488)	(4,820)	(4,654)	(19,421)
Written back on disposal	—	—	2,650	285	24	2,959
Assets included in discontinued operation *(Note 4)*	—	1,199	1,466	—	69	2,734
As at 31 December 2007	—	(9,876)	(16,941)	(23,790)	(6,700)	(57,307)
As at 1 January 2008	—	(9,876)	(16,941)	(23,790)	(6,700)	(57,307)
Charge for the year	—	(9,921)	(25,301)	(6,587)	(5,744)	(47,553)
Written back on disposal	—	593	1,537	2,601	—	4,731
Transfer to investment properties	—	175	—	—	—	175
As at 31 December 2008	—	(19,029)	(40,705)	(27,776)	(12,444)	(99,954)
As at 1 January 2009	—	(19,029)	(40,705)	(27,776)	(12,444)	(99,954)
Charge for the year	—	(15,665)	(33,438)	(7,964)	(8,151)	(65,218)
Written back on disposal	—	50	3,161	14,315	2,283	19,809
Transfer to investment properties	—	1,157	—	—	—	1,157
As at 31 December 2009	—	(33,487)	(70,982)	(21,425)	(18,312)	(144,206)
As at 1 January 2010	—	(33,487)	(70,982)	(21,425)	(18,312)	(144,206)
Charge for the period	—	(8,870)	(16,316)	(3,652)	(5,194)	(34,032)
Written back on disposal	—	—	26	288	—	314
Transfer to investment properties	—	765	—	—	—	765
Reclassification	—	842	273	(1,805)	690	—
As at 30 June 2010	—	(40,750)	(86,999)	(26,594)	(22,816)	(177,159)
Carrying amount:						
As at 31 December 2007	261,332	217,802	94,585	18,614	23,286	615,619
As at 31 December 2008	131,615	284,728	278,353	28,586	39,289	762,571
As at 31 December 2009	54,307	393,624	255,653	24,286	34,208	762,078
As at 30 June 2010	44,342	372,515	246,534	22,601	36,019	722,011

As of 30 June 2010, the building ownership certificate of Yashili (Guangdong) and Yashili (Shanxi)'s plant and buildings with carrying amount totalling RMB28,895,000 have not yet been issued. The directors of the Company do not foresee any substantial obstacle in obtaining the ownership certificate of the above mentioned plant and buildings.

The Group's plant and buildings are located in the PRC under medium-term leases.

The carrying amount of property, plant and equipment pledged to secure the certain bank loans (Note 26) and advances from local governments (Note 27) as at 31 December 2007, 2008 and 2009 and 30 June 2010 are set out as below:

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of pledged property, plant and equipment	8,871	78,330	195,495	121,266

16. INTANGIBLE ASSETS

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
As at the beginning of the year/period	221	3,255	3,921	5,030
Addition during the year/period	3,034	666	1,109	1,718
Transfer from construction in progress	—	—	—	4,098
As at the end of the year/period	3,255	3,921	5,030	10,846
Accumulated amortisation:				
As at the beginning of the year/period	(29)	(266)	(701)	(1,601)
Charge for the year/period	(237)	(435)	(900)	(956)
As at the end of the year/period	(266)	(701)	(1,601)	(2,557)
Carrying amount:				
As at the end of the year/period	2,989	3,220	3,429	8,289

The intangible assets represented purchased and customised software held by the Group during the Relevant Period.

Amortisation of the intangible assets is included in "Administrative expenses".

17. INVESTMENT PROPERTIES

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
As at the beginning of the year/period	—	11,713	14,022	46,578
Addition during the year/period	11,713	—	464	—
Acquisition from business combination *(Note 5)*	—	1,769	—	—
Transfer from plant and buildings	—	540	32,092	19,526
As at the end of the year/period	11,713	14,022	46,578	66,104
Accumulated depreciation:				
As at the beginning of the year/period	—	—	(234)	(1,692)
Charge for the year/period	—	(59)	(301)	(625)
Transfer from plant and buildings	—	(175)	(1,157)	(765)
As at the end of the year/period	—	(234)	(1,692)	(3,082)
Carrying amount:				
As at the end of the year/period	11,713	13,788	44,886	63,022

The fair value of the investment properties, as determined based on the valuation analysis on an open market value basis with reference to market transactions of similar properties, is estimated to be approximately RMB12,740,000, RMB17,209,000, RMB69,328,000 and RMB97,555,000 as at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively.

The carrying value of investment properties comprises properties:

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
In the PRC under a medium-term lease	11,713	12,019	43,132	61,308
In United States of America on a self-owned land	—	1,769	1,754	1,714
	11,713	13,788	44,886	63,022

As at 31 December 2009 and 30 June 2010, investment properties with carrying amounts totalling RMB43,132,000 and RMB61,308,000 had been pledged as security for the Group's bank loans.

18. LEASE PREPAYMENTS

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
As at the beginning of the year/period	44,514	85,769	121,123	121,123
Addition during the year/period	41,255	35,354	—	1,500
As at the end of the year/period	85,769	121,123	121,123	122,623
Accumulated amortisation:				
As at the beginning of the year/period	(2,530)	(3,603)	(4,863)	(7,673)
Charge for the year/period	(1,073)	(1,260)	(2,810)	(1,216)
As at the end of the year/period	(3,603)	(4,863)	(7,673)	(8,889)
Carrying amount:				
As at the end of the year/period	82,166	116,260	113,450	113,734

Interests in leasehold land represent prepayments of land use rights premium to the PRC authorities by the Group. The Group's leasehold land is located in the PRC, on which its manufacturing plants were built. The Group is granted land use rights for a period of 50 years.

The carrying amount of lease prepayments pledged to secure the Group's bank loans as at 31 December 2007, 2008 and 2009 and 30 June 2010 are set out as below:

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of pledged lease prepayments	33,544	40,202	42,258	38,865

19. INCOME TAX IN THE COMBINED BALANCE SHEETS

(a) *Current taxation in the combined balance sheets represents:*

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for PRC income tax for the year	23,299	42,680	5,275	17,994
Addition from business combination *(Note 5(d))*	—	—	—	2,254
PRC income tax paid	(12,673)	(43,137)	(1,985)	(16)
	10,626	(457)	3,290	20,232
Represented by:				
Income tax payables	10,626	8,770	3,796	20,232
Income tax recoverable	—	(9,227)	(506)	—

(b) *Recognised deferred tax assets and liabilities:*

Recognised deferred tax assets/(liabilities) are attributable to the following:

	Inventory provision	Deferred incomes	Tax losses	Expenses accruals	Unrealised profit on inventory	Provision for sales return	Loss arising from the Melamine Incident	Others	Total
Deferred tax asset arising from:									
As at 1 January 2007	—	—	—	1,217	—	—	—	(3)	1,214
(Charged)/credited to profit or loss	—	—	—	(298)	377	—	—	(236)	(157)
As at 31 December 2007	—	—	—	919	377	—	—	(239)	1,057
As at 1 January 2008	—	—	—	919	377	—	—	(239)	1,057
Credited to profit or loss	73,931	—	3,694	6,495	1,328	7,406	35,904	1,024	129,782
As at 31 December 2008	73,931	—	3,694	7,414	1,705	7,406	35,904	785	130,839
As at 1 January 2009	73,931	—	3,694	7,414	1,705	7,406	35,904	785	130,839
(Charged)/credited to profit or loss	(69,540)	5,175	29,723	11,495	409	(5,715)	(34,982)	(164)	(63,599)
As at 31 December 2009	4,391	5,175	33,417	18,909	2,114	1,691	922	621	67,240
As at 1 January 2010	4,391	5,175	33,417	18,909	2,114	1,691	922	621	67,240
Credited/(charge) to profit or loss	65	(288)	(18,713)	(6,946)	1,056	(1,515)	147	(148)	(26,342)
Addition from business combination *(Note 5(d))*	—	—	—	—	—	—	—	77	77
As at 30 June 2010	4,456	4,887	14,704	11,963	3,170	176	1,069	550	40,975

	31 December			30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Represented by:				
Deferred tax assets	1,057	130,839	67,240	40,975

Yashili (Guangdong) and Yashili (Shanxi) suffered losses in 2008 and Scient (Guangzhou) suffered losses in 2008 and 2009 primarily due to the Melamine Incident which were considered to be non-recurring in nature. In assessing the realisability of deferred tax assets of these three subsidiaries, directors of the Company considered the projected future taxable income. In order to fully utilise their deferred tax assets of RMB37,147,000 as at 30 June 2010, Yashili (Guangdong), Yashili (Shanxi) and Scient (Guangzhou) would need to generate future taxable income of approximately RMB76,871,000, RMB52,460,000 and RMB50,512,000 respectively. For Yashili (Shanxi) and Scient (Guangzhou), taxable income of approximately RMB50,379,000 and RMB8,790,000 respectively needed to be generated prior to the expiration of their unused tax losses in 2014.

(c) *Deferred tax assets not recognised*

In accordance with the accounting policy set out in Note 1(v), the Group has not recognised the following deductible temporary differences and unused tax losses as deferred tax assets as it is not probable that future taxable income against which the temporary differences and unused tax losses can be utilised will be available.

	31 December			30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Temporary differences	5,814	163,953	54,186	55,004
Tax losses				
— due in 2012	39	39	39	39
— due in 2013	—	2,767	2,767	2,767
— due in 2014	—	—	153,367	153,367
— due in 2015	—	—	—	958
Total	5,853	166,759	210,359	212,135

(d) *Deferred tax liabilities not recognised*

Pursuant to the New Tax Law and its relevant regulations, PRC-resident enterprises are levied withholding tax at 10% on dividends to their non-PRC-resident corporate investors for profits earned since 1 January 2008. Under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% equity interests or more of a PRC enterprise is entitled to a reduced withholding tax rate of 5%.

As at 31 December 2008 and 2009 and 30 June 2010, the temporary differences relating to the undistributed profits of some of the Group's PRC subsidiaries amounted to RMB36,907,000, RMB120,604,000 and RMB317,590,000, respectively. No deferred tax liabilities were provided in respect of the tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of these subsidiaries and it has been determined that the retained profits recorded as of 30 June 2010 would not be distributed in the foreseeable future.

20. OTHER INVESTMENTS

Other investments as at 31 December 2007 represent wealth management products issued by banks of RMB30,000,000, funds of RMB7,456,000 and listed equity securities of RMB744,000.

21. INVENTORIES

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials *(i)*	280,840	125,151	166,714	329,438
Finished goods	89,595	155,537	37,214	61,930
Work in progress	27,656	45,040	46,365	101,516
Packing materials	24,005	36,254	33,287	23,291
Low value consumables	2,074	7,084	8,428	7,135
	424,170	369,066	292,008	523,310

(i) As at 30 June 2010, the Group's raw materials included goods-in-transit of RMB85,747,000. The Group did not hold any goods-in-transit prior to 2010.

An analysis of the amount of inventories recognised as an expense is as follows:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Carrying amount of inventories recognised as					
— cost of sales	1,637,091	1,463,677	1,095,617	628,733	563,861
— selling and distribution expenses *(ii)*	165,856	235,325	161,129	105,732	85,075
Write-down of inventories	—	456,854	251	139	542
Disposal of inventories	7,291	163,198	9,496	6,259	3,353
	1,810,238	2,319,054	1,266,493	740,863	652,831

(ii) Inventories recognised as selling and distribution expenses represented the cost of purchased baby products which are given away as gift items together with the Group's products sold.

22. TRADE AND BILLS RECEIVABLES

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Bills receivables	3,831	—	887	458
Trade receivables	66,612	54,792	79,489	59,605
Less: allowance for doubtful debts	(3,887)	(4,905)	(1,317)	(2,477)
	66,556	49,887	79,059	57,586

The Group's credit policy is set out in Note 33(a). All of the trade receivables are expected to be recovered within one year.

An ageing analysis of trade and bills receivables (net of allowance) by due date is as follows:

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Current	65,200	49,877	67,338	45,521
Less than 3 months past due	915	—	3,231	2,957
More than 3 months but less than 6 months past due	19	—	138	1,391
More than 6 months but less than 12 months past due	—	10	1,231	777
More than 12 months but less than 24 months past due	422	—	7,121	6,940
	1,356	10	11,721	12,065
	66,556	49,887	79,059	57,586

The trade receivables as at 31 December 2008 included an amount due from Yashili (Shanghai) of RMB31,549,000. As the Group acquired Yashili (Shanghai) on 31 July 2009, the trade receivables as at 31 December 2009 and 30 June 2010 comprised overdue balances of RMB11,163,000 and RMB11,909,000 derived from Yashili (Shanghai).

The movement in the allowance for impairment in respect of trade receivables during the Relevant Period are as follows:

	Years ended 31 December			Six months ended 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January	2,084	3,887	4,905	1,317
Impairment loss recognised	1,822	1,227	168	2,085
Written off	(19)	(209)	(3,756)	(925)
	3,887	4,905	1,317	2,477

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	65,200	49,877	67,338	45,521
Less than 3 months past due	915	—	3,039	2,957
More than 3 months but less than 6 months past due	19	—	113	1,391
More than 6 months but less than 12 months past due	—	—	1,214	777
More than 12 months but less than 24 months past due	—	—	6,808	6,940
	934	—	11,174	12,065
	66,134	49,877	78,512	57,586

Based on past experience, except for the above amounts that the customers were unable to repay the outstanding balance, the Group believes that no impairment allowance is necessary in respect of remaining trade receivables. All these customers have good track records with the Group.

23. PREPAYMENTS AND OTHER RECEIVABLES

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Prepaid advertising expenses	53,716	14,440	15,888	30,201
Prepayments for purchase of raw materials	55,146	25,039	59,607	12,454
Advances to sales offices	7,656	12,906	4,471	1,478
VAT recoverable	29,703	30,641	39,285	64,936
Others	16,718	15,200	24,061	12,614
	162,939	98,226	143,312	121,683

24. RESTRICTED BANK DEPOSITS

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Pledged for				
— issuing bank acceptances	4,437	1,349	8,989	5,135
— issuing letters of credit	17,429	5,521	—	23,193
— acquiring bank loans	—	—	—	101,081
Frozen deposits *(i)*	—	—	10,706	9,406
	21,866	6,870	19,695	138,815

(i) Certain deposits of RMB4,900,000 were frozen by a local PRC court on 13 October 2009 in relation to a pending litigation between a supplier of Yashili (Guangdong) and one of the creditors of that supplier. On 27 July 2009, the creditor applied to the local PRC court to freeze certain bank deposits of Yashili (Guangdong) on the ground that Yashili (Guangdong) had an outstanding trade payable of RMB2,274,000 to that supplier as at 31 December 2008. However, according to a court decision dated 4 November 2009, the supplier was required to pay RMB7,109,000 to Yashili (Guangdong) as compensation for the melamine-contaminated raw materials sold by the supplier to Yashili (Guangdong). In the circumstance, the directors of the Company are thus of the view that the such deposits are fully recoverable and no provision is necessary as at 31 December 2009. Such frozen deposits are subsequently released on 11 June 2010.

Certain deposits of RMB5,806,000 were frozen by a local PRC court on 13 June 2009 in relation to two pending litigations between Yashili (Guangdong) and one of its suppliers. In addition, further deposits of RMB3,600,000 were frozen on 9 June 2010 by the PRC court. However, according to a court decision dated 29 December 2009, the supplier was required to pay RMB6,375,000 to Yashili (Guangdong) as a compensation for the melamine-contaminated raw materials sold by the supplier to Yashili (Guangdong) in 2008. After consulting the Company's PRC legal advisor, the directors of the Company are of the view that the frozen deposits are fully recoverable and no provision is necessary as at 31 December 2009 and 30 June 2010.

25. CASH AND CASH EQUIVALENTS

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Cash on hand	2,520	8,030	3,116	2,530
Cash at bank	94,391	296,838	657,512	607,894
	96,911	304,868	660,628	610,424

Majority of the cash at bank and on hand are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

26. LOANS AND BORROWINGS

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year or on demand	164,000	327,340	230,000	330,535
After 1 year but within 2 years	—	40,000	—	—
	164,000	367,340	230,000	330,535

All the loans and borrowings as at 31 December 2007, 2008 and 2009 and 30 June 2010 were fixed interest-rate loans.

Details of the loans and borrowings are as follows:

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans denominated in RMB *(i)*	129,000	316,000	230,000	230,000
Bank loans denominated in United States dollar ("US dollar") *(ii)*	—	—	—	100,535
Entrusted loans denominated in RMB *(iii)*	35,000	49,000	—	—
Other loan denominated in RMB *(iv)*	—	2,340	—	—
	164,000	367,340	230,000	330,535

(i) The bank loans carried weighted average interest rates of 6.76%, 6.76%, 5.22% and 5.22% per annum as at 31 December 2007, 2008 and 2009 and 30 June 2010 respectively.

(ii) The bank loans as at 30 June 2010 carried a weighted average interest rate of 2.00% per annum and were secured by certain restricted bank deposits as disclosed in Note 24.

(iii) The entrusted loans were obtained from certain independent third parties and carried weighted average interest rates of 5.78% and 6.76% per annum as at 31 December 2007 and 2008 respectively.

(iv) Other loan as at 31 December 2008 represented a short-term loan from the Guangzhou Development Zone Enterprise Construction and Service Bureau (廣州開發區企業建設和服務局) with a fixed interest rate of 6.12% per annum. No guarantee or security was required for the loan.

At balance sheet date, the loans and borrowings were secured as follows:

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans				
— secured	129,000	216,000	230,000	330,535
— unsecured	—	100,000	—	—
Unsecured loans	35,000	51,340	—	—
	164,000	367,340	230,000	330,535

As at 31 December 2007, 2008, 2009 and 30 June 2010, bank loans of RMB129,000,000, RMB207,000,000, RMB230,000,000 and RMB230,000,000 were secured by the Group's non-current assets. In addition, as at 30 June 2010, bank loans of 100,535,000 were secured by the Group's restricted bank deposits. Details of the pledged assets are disclosed in Notes 15, 17, 18 and 24. As at 31 December 2007 and 2008, bank loans of RMB64,000,000 and RMB97,000,000 were also guaranteed by the Controlling Equity Owners. As at 31 December 2008, bank loan of RMB9,000,000 was secured by certain assets of the Controlling Equity Owners.

27. TRADE AND OTHER PAYABLES

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables *(i)*	158,495	364,330	265,836	268,998
Bills payables *(ii) (Note 33(d))*	4,437	10,310	8,988	5,135
Advances from customers	295,131	677,547	154,561	83,672
Accrued payroll	23,946	20,712	26,360	12,444
Other taxes payable	30,670	87,115	62,961	21,956
Advances from local government *(iii)*	—	60,000	50,000	40,000
Derivative financial liabilities *(note 33(c)(iii))*	—	—	—	432
Pledged deposit from customers	1,898	26,949	27,115	30,147
Other payables and accruals *(iv)*	89,841	100,959	47,421	41,479
	604,418	1,347,922	643,242	504,263

(i) The credit period granted by the suppliers ranges from 30 days to 90 days.

An ageing analysis of trade payables by due date is as follows:

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Due within one month or on demand	63,226	180,277	86,704	106,878
Due after one month but within 3 months	68,018	127,027	150,878	140,586
Due after 3 months but within 6 months	27,251	57,026	28,254	21,534
	158,495	364,330	265,836	268,998

(ii) Bills payables as at 31 December 2007, 2008 and 2009 and 30 June 2010 were secured by pledged deposits with banks (Note 24).

(iii) The Group received advances of RMB60,000,000 from local governments in late 2008 as a financial assistance in connection with the Melamine Incident. Advance of RMB30,000,000 was received from the People's Government of Yingxian County, which borne a fixed interest rate of 5.76% per annum and was secured by Yashili (Shanxi)'s plant and machinery as disclosed in Note 15. Another advance of RMB30,000,000 was received from the People's Government of Chao'an County which was interest-free and did not require any guarantee or security. RMB10,000,000 was waived by the People's Government of Chao'an County as government grants in 2009 and another RMB10,000,000 was repaid to the People's Government of Chao'an County in April 2010. There were no fixed repayment terms for the advances as at 30 June 2010.

(iv) Other payables and accruals mainly consist of payables for acquisition of non-current assets and other accrued expenses.

28. PROVISION FOR SALES RETURN

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at the beginning of the year/period	—	—	46,665	9,023
Charge for the year/period	—	46,665	1,923	—
Utilised during the year/period	—	—	(39,565)	(7,614)
	—	46,665	9,023	1,409

In September 2008, to speed up the recovery from the Melamine Incident, the Group offered to customers that if the goods sold during the period between October and December 2008 was unsaleable in the market, an agreed percentage of the goods can be returned. The Group made provisions for the losses arising from the potential sales return based on its best estimate.

29. DEFERRED INCOME

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at the beginning of the year/period	—	—	—	37,045
Received during the year/period	—	—	38,900	—
Amortisation for the year/period *(Note 8)*	—	—	(1,855)	(3,223)
	—	—	37,045	33,822

During the year ended 31 December 2009, the Group received various government grants for acquisition of new plant and for certain technical innovation and production line expansion projects. These grants are deferred over the useful lives of relevant assets and the amounts recognised as "Other revenue" in the year ended 31 December 2009 and the six months ended 30 June 2010 are RMB1,855,000 and RMB3,223,000 respectively.

30. CAPITAL AND SHARE PREMIUM

(i) As detailed in the section headed "History and Corporate Structure" in the Prospectus, Yashili (Guangdong) acquired equity interest in Yashili (Shanxi), Yashili (Heilongjiang), Scient (Guangzhou), Haoweijia Food, Yashili Dairy and Yashili Nutrition from the Controlling Equity Owners in 2007 at the considerations totalling RMB185,320,000. The considerations were deemed as distribution to the Controlling Equity Owners.

For the purposes of this report, the capital as at 1 January 2007 represented an aggregate amount of the Group's share of the nominal value of the paid-in capital of the companies comprising the Group as at that date. The capital as at 31 December 2007, 2008 and 2009 and 30 June 2010 represented the nominal value of the capital of Yashili (Guangdong).

(ii) Yashili (Guangdong) was converted from a limited liability company to a PRC joint stock limited company on 27 March 2008. The total equity of Yashili (Guangdong) as at 31 December 2007, including capital of RMB106,800,000, distributable reserve of RMB307,045,000, PRC statutory reserve of RMB51,196,000 and capital reserve of RMB2,646,000, was converted to 450,000,000 shares with par value of RMB1 each and the remaining amount of RMB17,687,000 was recorded as share premium.

(iii) During the year ended 31 December 2009, the Controlling Equity Owners and Express Performer Limited injected capital in cash amounting to RMB899,526,000 in aggregate to Yashili (Guangdong), to subscribe for 142,105,300 shares issued by Yashili (Guangdong) with par value of RMB1 each and the remaining amount of RMB757,421,000 was recorded as share premium.

31. RESERVES

(a) *PRC statutory reserves*

PRC statutory reserves are established in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiary established in the PRC. Transfers to the reserves were approved by the respective boards of directors.

(b) *Translation reserve*

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in Note 1(f)(iii).

(c) *Distributable reserve*

The Company was incorporated on 3 June 2010 and had not commenced operation as of 30 June 2010. Accordingly, there was no reserve available for distribution to shareholders as 30 June 2010. The accumulative losses of the Company as at 30 June 2010 was RMB3,900,000.

On the basis set out in Section A above, the aggregate amount of the Group's distributable reserve at 31 December 2007, 2008 and 2009 and 30 June 2010 of the companies comprising the Group were RMB376,373,000, RMB Nil, RMB Nil and RMB141,788,000 respectively.

(d) *Dividends*

During the year ended 31 December 2007, Yashili (Guangdong) declared dividend of approximately RMB41,625,000 to its then equity holders; Scient (Guangzhou) declared dividend of approximately RMB295,382,000 to its then equity holders, of which RMB129,019,000 was reinvested into capital of Scient (Guangzhou). All dividends declared during the year represent dividends attributable to previous financial years.

During the year ended 31 December 2008, Scient (Guangzhou) declared dividend of approximately RMB467,000 to its then equity holders.

(e) *Equity-settled share-based payment reserve*

Equity-settled share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group in accordance with the accounting policy adopted for share-based payments in Note 1(n)(iv).

(f) *Other capital reserves*

Other capital reserves comprise aggregate amount of non-statutory reserves of the Company's PRC subsidiaries and changes in equity arisen from acquisitions of non-controlling interests which are dealt with in accordance with the accounting policy set out in Note 1(e)(i).

32. EQUITY-SETTLED SHARE-BASED TRANSACTIONS

Yashili (Guangdong) adopted a share option scheme (the "Employee Share Option Scheme") on 1 January 2009, to invite certain eligible participants to take up options (the "2009 Employee Share Options") to subscribe for shares of the to-be-listed company that will be incorporated as part of the Reorganisation of Yashili (Guangdong) at an exercise price of RMB0.85 per share. Pursuant to the Employee Share Option Scheme documents, the 2009 Employee Share Options cannot be vested until after an initial public offering ("IPO") occurs.

Two directors of the Company and 148 employees of the Group accepted the 2009 Employee Share Options granted by Yashili (Guangdong) on 1 January 2009.

(i) The terms and conditions of the 2009 Employee Share Options that existed during the Relevant Period are as follows:

			Number of 2009 Employee Share Options granted		
Date Granted	**Vesting date**	**Expiry date**	**Director**	**Employee**	**Total**
			'000	**'000**	**'000**
1 January 2009	two months upon IPO	15 days after vesting date	432.8	1,439.2	1,872
1 January 2009	fourteen months upon IPO	15 days after vesting date	432.8	1,439.2	1,872
1 January 2009	twenty-six months upon IPO	15 days after vesting date	432.8	1,439.2	1,872
1 January 2009	thirty-eight months upon IPO	15 days after vesting date	432.8	1,439.2	1,872
1 January 2009	fifty months upon IPO	15 days after vesting date	432.8	1,439.2	1,872
			2,164.0	7,196.0	9,360

Pursuant to the relevant terms of the Employee Share Option Scheme, the 2009 Employee Share Options will be converted into options of the to-be-listed company with the exercise price and number of employee share options to be adjusted proportionately upon the exchange of the options. In addition, the options granted under the Employee Share Option Scheme will be forfeited when the grantee ceases to be an employee of the Group for reasons other than death, ill-health or retirement.

(ii) The number and weighted average exercise prices of 2009 Employee Share Options are as follows:

	Year ended 31 December						Six months ended 30 June	
	2007		2008		2009		2010	
	Weighted average exercise price per share	Number of options	Weighted average exercise price per share	Number of options	Weighted average exercise price per share	Number of options	Weighted average exercise price per share	Number of options
	RMB	'000	RMB	'000	RMB	'000	RMB	'000
Outstanding at the beginning of the year/period	—	—	—	—	—	—	0.85	9,360
Granted during the year/period	—	—	—	—	0.85	9,360	—	—
Outstanding at the end of the year/period	—	—	—	—	0.85	9,360	0.85	9,360

The 2009 Employee Share Options outstanding at 31 December 2009 and 30 June 2010 had an exercise price of RMB0.85 per share and a weighted average remaining expected life 3.2 years and 2.7 years respectively.

(iii) Fair value of share options and assumptions:

The fair value of services received in return for the 2009 Employee Share Options is measured by reference to the fair value of 2009 Employee Share Options granted. The estimated fair value of the 2009 Employee Share Options is measured based on a binomial option pricing model

Fair value of the 2009 Employee Share Options and assumptions

Fair value per share at measurement date	RMB2.06
Exercise price per option	RMB0.85
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	61.1%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	4.20 years
Expected dividends	4.90%
Risk-free interest rate	1.2% to 2.1%

The expected volatility is based on the average of the weekly historical volatility of comparable companies with period commensurate to the option life. Expected dividends are based on management's best estimation. The risk-free rate is referenced to the yields of Chinese Government Bond with maturity close to expiry date of the 2009 Employee Share Options.

Except for the conditions mentioned above, there were no other market conditions and service conditions associated with the 2009 Employee Share Options.

33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

Exposure to credit, liquidity and market risk arises in normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) *Credit risk*

The Group's credit risk is primarily attributable to trade and other receivables. Exposure to the credit risks are monitored by management on an ongoing basis.

In respects of trade receivables, the Group has established a credit policy in place: fixed credits are granted to supermarkets and the periods range from 60 to 90 days; temporary credits are offered on transaction-by-transaction basis to distributor customers who have been trading with the Group for many years and have a good trading record and the credit periods range from 10 to 60 days. Special credit is granted to credit-worthy distributor customers when the Group promotes certain line of products. All the credits offered are unsecured. Full advances are advance payments for sales to other customers. The Group regularly reviews ageing analysis of the trade receivables to monitor the credit exposure.

Majority of the Group's customers have been trading with the Group for years and the Group did not record significant bad debts losses during the Relevant Period. At balance sheet dates, the Group has a certain concentration of credit risk of the trade receivables, the top five trade debtors represented 30.7%, 82.3%, 42.3%, and 40.9% of total trade receivables as at 31 December 2007, 2008 and 2009 and 30 June 2010. The balance as at 31 December 2008 included trade receivables due from Yashili (Shanghai) which was acquired by the Group in 2009, which accounted for 63.2% of total trade receivables. All the trade receivables are due from customers with good trade record and no impairment allowance is made against these customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheets. Except for the financial guarantee given by the Group as set out in Note 36, the Group does not provide any other guarantees which would expose the Group to credit risk.

(b) *Liquidity risk*

The Group's approach to managing liquidity is to ensure, as far as possible, that the Group, as a whole has always maintained sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following table presents the earliest contractual settlement dates of the Group's financial liabilities at the balance sheet dates, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to repay.

The following are the contractual maturities of financial liabilities (excluding advances from customers and derivative financial liabilities), including estimated interest payments and excluding the impact of netting agreements:

	31 December 2007 Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 2 years	Total	Balance sheet carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000
Loans and borrowings	168,757	—	168,757	164,000
Amounts due to related parties	279,010	16,943	295,953	287,883
Trade and other payables	309,287	—	309,287	309,287
Total	757,054	16,943	773,997	761,170

	31 December 2008 Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 2 years	Total	Balance sheet carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000
Loans and borrowings	341,037	42,130	383,167	367,340
Amounts due to related parties	155,461	—	155,461	155,461
Trade and other payables	670,375	—	670,375	670,375
Total	1,166,873	42,130	1,209,003	1,193,176

	31 December 2009 Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 2 years	Total	Balance sheet carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000
Loans and borrowings	239,330	—	239,330	230,000
Amounts due to related parties	10,127	—	10,127	10,127
Trade and other payables	488,681	—	488,681	488,681
Total	738,138	—	738,138	728,808

	30 June 2010 Contractual undiscounted cash outflow			
	Within 1 year or on demand	More than 1 year but less than 2 years	Total	Balance sheet carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000
Loans and borrowings	334,754	—	334,754	330,535
Amounts due to related parties	7,804	—	7,804	7,804
Trade and other payables	420,159	—	420,159	420,159
Total	762,717	—	762,717	758,498

(c) ***Market risk***

Increasing market fluctuations may result in significant cash-flow and profit volatility risk for the Group. The Group's income or the values of its holding of financial instruments are affected by changes in commodity price of raw materials, foreign exchange rate and interest rate. The objective of market risk management is to manage and control market risk exposures within the acceptable parameters, while minimising the costs on managing the risk.

The Group seeks to manage and control the market risks primarily through its regular operating and financial activities. All such transactions are carried out within the guidelines set by the Board of Directors.

(i) Commodity price risk

Raw materials and packing materials are the major materials of the Group's products which accounted for more than 85% of total cost of sales. Fluctuation on commodity price of raw materials and packing materials will have significant impact on the Group's earnings, cash flows as well as the value of inventories. The Group minimises the cost of materials by centralising purchase of raw materials for the Group and self-production of plastic bags and iron jars. The Group historically has not entered into any commodity derivative instruments to hedge the potential commodity price changes.

(ii) Interest rate risk

Interest rate profile

Except for bank deposits with stable interest rates and advances to related parties with fixed interest rates, the Group has no other significant interest-bearing assets. Accordingly, the Group's income and operating cashflow are substantially independent of changes in market rates. Details of the effective interest rates of advances to related parties are disclosed in Note 37(c).

The Group does not account for any fixed rate financial assets or liabilities at fair value in the Relevant Period, neither does the Group obtain any loans and borrowings at variable interest rates, therefore a change in interest rate at the reporting dates would not affect the Group's finance costs and financing cashflow. The interest rates and terms of loans and borrowings are disclosed in Note 26.

Sensitivity analysis

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 and 2009, if interest rates on deposits with banks had been 27 basis points higher/lower with all other variables held constant, profit before tax for the year/period would have been RMB278,000, RMB714,000, RMB1,588,000, RMB747,000 and RMB311,000 higher/lower, respectively, mainly as a result of higher/lower interest income on deposits with banks.

(iii) Foreign currency risk

Prior to 2010, the Group was not exposed to significant foreign currency risks as most of its transactions and balances were substantially denominated in the respective functional currencies of its subsidiaries. The Group's subsidiary, Victory Trading, which was acquired on 25 June 2010, was exposed to foreign currency risk through overseas purchases which give rise to payables that are denominated in foreign currency.

Upon settlement of the trade payables denominated in US dollars, Victory Trading entered into a number of forward exchange contracts in which the bank offered a lower rate (as compared to the spot rate) to the Group to purchase US dollars when the Group settled the due letters of credit, and at the same time the bank granted loans in US dollars with the same amounts and duration. These derivatives had not been designated as hedges for accounting purposes. Accordingly, the fair value gain/(losses) were recognised in Victory Trading's profit and loss accounts. The Group recognised the derivative financial liabilities upon acquisition of Victory Trading on 25 June 2010. The Group did not apply hedge accounting in respect of the forward exchange contracts. The settlement dates of the forward exchange contracts held by the Group as at 30 June 2010 are from 27 September to 24 December 2010.

	31 December			30 June
	2007	2008	2009	2010
	USD'000	USD'000	USD'000	USD'000
Trade payables	—	—	—	5,419
Bank loans	—	—	—	14,805
Gross exposure arising from recognised assets and liabilities	—	—	—	20,224
Notional principal amounts of forward contracts	—	—	—	14,805
Net exposure arising from recognised assets and liabilities	—	—	—	5,419

Sensitivity analysis

The foreign currency sensitivity analysis is calculated based on the major net foreign currency exposure of the Group as at the balance sheets dates, assuming 5% shift of RMB against US dollars.

Results from a 5% strengthening of the RMB against US dollars on the profit after tax and retained profits as at 30 June 2010 are RMB1,840,000. A 5% weakening of the RMB against US dollars as at the same dates would have had the equal but opposite effect. This analysis assumes that all other variables, in particular interest rates, remain constant.

(d) *Capital management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group uses different measures including adjusted net debt-to-equity ratios to monitor its capital. Net debt is calculated as total borrowings (including loans and borrowings and bills payable), as shown in the combined balance sheet less cash and bank deposits (excluding frozen bank deposits). Total capital is calculated as equity holder's funds (i.e. total equity attributable to equity holders of the Company), as shown in the combined balance sheet, plus advances from the Controlling Equity Owners.

	31 December			30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Loans and borrowings *(Note 26)*	164,000	367,340	230,000	330,535
Bills payable *(Note 27)*	4,437	10,310	8,988	5,135
Total borrowings	168,437	377,650	238,988	335,670
Less: Cash and cash equivalents *(Note 25)*	96,911	304,868	660,628	610,424
Pledged bank deposits *(Note 24)*	21,866	6,870	8,989	129,409
Net debt	49,660	65,912	(430,629)	(404,163)
Total equity attributable to equity holders of the Company	537,639	(28,271)	1,278,926	1,520,023
Advances from the Controlling Equity Owners *(Note 37(c))*	154,000	90,000	—	1,086
Total capital	691,639	61,729	1,278,926	1,521,109
Adjusted net debt-to-equity ratio	0.07	1.07	(0.34)	(0.27)

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

(e) *Fair value*

(i) *Financial instruments carried at fair value*

The following table presents the carrying value of the Group's financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in IFRS 7, *Financial instruments: Disclosures* with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

31 December 2007	**Level 1**	**Level 2**	**Level 3**
	RMB'000	**RMB'000**	**RMB'000**
Assets			
Other investment	38,200	—	—

30 June 2010	**Level 1**	**Level 2**	**Level 3**
	RMB'000	**RMB'000**	**RMB'000**
Liabilities			
Derivative financial instruments			
— Forward exchange contracts	—	432	—

There is no financial instrument carried at fair value as at 31 December 2008 and 31 December 2009.

During the Relevant Period, there were no transfers between instruments in Level 1 and Level 2.

(ii) *Fair value of financial instruments carried at other than fair value*

The carrying amounts of all financial assets and liabilities carried at amortised cost approximate their respective fair values as at 31 December 2007, 2008 and 2009 and 30 June 2010 due to the short maturities of these instruments.

(f) *Estimation of fair values*

The following summaries the major methods and assumptions used in estimating the fair values of financial instruments.

(i) *Securities*

Fair value is based on quoted market price at the balance sheet date without any deduction for transaction costs.

(ii) *Derivatives*

Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate.

(iii) *Interest-bearing loans and borrowings*

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

34. OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Less than one year	2,456	11,966	10,436	7,710
Between one and five years	212	10,955	10,791	10,901
More than five years	—	11,391	8,711	7,371
	2,668	34,312	29,938	25,982

The Group leases a number of plant, equipment and properties under operating leases. Except for a lease of plant from the Controlling Equity Owners with the lease period of ten years, remaining leases typically run for a period of one year, with an option to renew the lease when all term are renegotiated. None of the leases includes contingent rentals.

Leases as lessor

The Group leases out its investment properties held under operating leases. The future minimum lease payments under non-cancellable leases are as follows:

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Less than one year	1,007	1,056	1,982	3,551
Between one and five years	1,055	—	5,628	8,432
	2,062	1,056	7,610	11,983

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease after that date at which time all terms are renegotiated. Leases payments are usually increased every one year to reflect market rentals. None of the leases includes contingent rentals.

35. CAPITAL COMMITMENTS

Capital commitments outstanding as at 31 December 2007, 2008 and 2009 and 30 June 2010 not provided for in the Combined Financial Information were as follows:

	31 December			30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted for	61,269	61,802	10,982	10,892

36. CONTINGENT LIABILITIES

As at 31 December 2009, the Group provided certain guarantees to Victory Trading, which was one of the Group's major milk powder suppliers in 2009 and the first half of 2010, in respect of certain of its bank loans and bank acceptances amounting RMB100,000,000. During the Relevant Period, no claims had been made against the Group under such guarantees. On 25 June 2010, Yashili (Guangdong) acquired entire equity interest in Victory Trading and Victory Trading became a wholly owned subsidiary of the Group since then.

37. RELATED PARTY TRANSACTIONS

During the Relevant Period, the directors are of the view that related parties of the Group include the following individuals/companies.

Name of party	Relationship
Haoweijia Food *(i)*	Under common control of the Controlling Equity Owners
Chaoan County Anbu Yingjia Paper and Plastic Products Factory ("Yingjia") (潮安縣庵埠營佳紙塑制品廠) *(ii)*	Under the control of a close family member of a director of the Company

(i) Following the transfer of Haoweijia Food to the Controlling Equity Owners on 31 December 2007, Haoweijia Food became a related party of the Group from that date.

(ii) The official name of the entity is in Chinese. The English translation of the name is for reference only.

Particulars of significant transactions between the Group and the above related parties during the Relevant Period are as follows:

(a) ***Recurring transactions***

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Sale of packing materials to Haoweijia Food	—	4,047	2,418	891	1,075
Purchase of preserved fruit products from Haoweijia Food	—	5,619	1,829	—	2,634
Rent of property and plant from the Controlling Equity Owners	—	2,010	2,705	1,340	1,370
Purchase of plastic spoons and covers from Yingjia	—	7,692	4,801	2,240	3,323

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices, and in the ordinary course of business. The directors have confirmed that the above transactions will continue in the future after the listing of the Company's shares on the SEHK.

(b) ***Non-recurring transactions***

	Year ended 31 December			Six months ended 30 June	
	2007	**2008**	**2009**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Sale of materials to Yingjia	—	1,611	—	—	—
Sale of plant to the Controlling Equity Owners *(i)*	—	22,828	—	—	—
Sale of Haoweijia Food to the Controlling Equity Owners	10,800	—	—	—	—

(i) For the year ended 31 December 2008, the Group disposed of two properties to the Controlling Equity Owners. Loss amounting to RMB857,000 was recognised in other net (loss)/income.

The directors of the Company are of the opinion that the above related party transactions, except for sale of Haoweijia Food which was priced at carrying amount of the net asset value of Haoweijia Food, were conducted on normal commercial terms and was priced with reference to prevailing market prices, and in the ordinary course of business. The directors have confirmed that the above transactions will not continue in the future after the listing of the Company's shares on the SEHK.

(c) ***Balances with related parties***

(i) Amounts due from related parties

	31 December			30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Trade related				
— Yingjia	—	1,611	1,611	—
— Haoweijia Food	12,173	826	1,898	1,258
Non-trade related				
Advances to the Controlling Equity Owners				
— at fixed interest rate of 2.4%	56,000	—	—	—
— at fixed interest rate of 3.6%	20,180	—	—	—
— interest-free	—	—	2,000	—
Other receivables from				
— the Controlling Equity Owners *(1)*	40,258	15,564	15,564	15,564
— Haoweijia Food	—	—	86	9
	128,611	18,001	21,159	16,831

(ii) Amounts due to related parties

	31 December			30 June
	2007	**2008**	**2009**	**2010**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Trade related				
— Yingjia	—	1,212	1,296	1,096
— Haoweijia Food	9,112	4,100	8,831	4,282
— the Controlling Equity Owners	—	1,117	—	1,340
Non-trade related				
Advances from the Controlling Equity Owners				
— interest-free	2,000	90,000	—	1,086
— interest bearing *(2) & (3)*	152,000	—	—	—
Dividend payable to the Controlling Equity Owners	124,771	59,032	—	—
	287,883	155,461	10,127	7,804

(1) The amounts included prepaid individual income tax of RMB15,564,000 on dividend on behalf of the individual shareholders by Yashili (Guangdong) and the amount were subsequently settled on 26 August 2010.

The amounts also included a receivable of RMB10,800,000 on sale of Haoweijia Food and a receivable of RMB13,894,000 arising from sale of Scient (Guangzhou)'s equity interest to the Controlling Equity Owners by Yashili Nutrition. Both of the receivables were settled in 2008.

(2) The interest-bearing advances from the Controlling Equity Owners were raised as entrusted loans and carried a weighted average rate of 6.97% as at 31 December 2007.

(3) The amounts included a long-term advance of RMB 16,000,000 with contractual maturity date in 2009, which was early repaid in 2008.

(4) Expect for the amounts as mentioned above, the amounts due from/to related parties as at 31 December 2007, 2008 and 2009 and 30 June 2010 were expected to be recovered/repaid within one year. All advances to/from related parties are unsecured.

38. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on the expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) *Depreciation and amortisation*

Property, plant and equipment, investment properties, and intangible assets are depreciated and amortised using the straight-line method over their useful lives after taking into account residual value. The useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each reporting period. The useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation is revised.

(b) *Impairment*

(i) Receivables

Receivables are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Company about loss events such as a significant decline in the estimated future cash flow of an individual debtor or the portfolio of debtors, and significant changes in the financial condition that have an adverse effect on the debtor. If there is an indication that there has been a change in the factors used to determine the provision for impairment, the impairment loss recognised in prior years is reversed.

(ii) Non-financial long-term assets

Non-financial long-term assets are reviewed at each reporting date to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, impairment loss is provided. The recoverable amount of an asset (asset group) is the greater of its net selling price and its present value of expected future cash flows. Since a market price of the asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing value in use, significant judgements are exercised over the asset's production, selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumption.

(iii) Inventories

Inventories are carried at the lower of cost and net realisable value. Any excess of the cost over the net realisable value of each class of inventories is recognised as a provision for diminution in the value of inventories.

Net realisable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes necessary to make the sale. For inventories with committed sales orders or active market, the Group estimates the new realisable value with reference to the selling prices set out in the committed sales orders or in the active market. For inventories without committed sales orders or active market, the Group carefully estimates the new realisable value based on available information and reasonable and supportive assumptions on expected selling prices, manufacturing costs, selling expenses, sales tax and etc.

(c) *Deferred tax assets*

Deferred tax assets arising from deductible temporary differences and tax losses are recognised to the extent that it is probable that future taxable income will be available against which deductible temporary differences and tax losses can be utilised. The outcome of their actual utilisation may be different.

(d) ***Provisions***

Provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. As disclosed in note 28, the Group made provision for sales return in respect of products sold with the right to return during the period from October to December 2008. In calculating the provisions, the Group took into account the possible return amounts under different circumstances and the possibility of each circumstance. The outcome of actual return may be different.

39. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2010

Up to the date of issue of these Combined Financial Information, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period beginning on 1 January 2010 and which have not been adopted in the Combined Financial Information of these development, the following related to matter that may be relevant to the Group's operations and the financial statements:

New standards, amendments to and interpretations of IFRSs effective for annual periods ending after 31 December 2010

	Effective for accounting periods beginning on or after
Amendment to IAS 32, Financial instruments: Presentation — Classification of rights issues	1 February 2010
IFRIC 19, Extinguishing financial liabilities with equity instruments.	1 July 2010
Amendments to IFRS1, First-time adoption of International Financial Reporting Standards — Limited exemption from comparative IFRS7 disclosures for first-time adopters	1 July 2010
Improvements to IFRSs 2010	1 July 2010 or 1 January 2011
Amendments to IFRIC 14, IAS 19, The limit on a defined benefit asset, minimum funding requirements and their interaction — Prepayments of a minimum funding requirement	1 January 2011
Revised IAS 24, Related party disclosures	1 January 2011
IFRS 9, Financial instruments, Basis for conclusions on IFRS 9 Amendments to other IFRSs and guidance on IFRS 9	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to result in material impact to the Group's results of operations and financial position.

D. SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 June 2010:

(1) The companies comprising the Group underwent the Reorganisation to rationalise the Group's structure in preparation for the listing of the Company's shares on the Main Board of the SEHK. The Reorganisation was completed on 5 July 2010, details as set out in the section headed "Reorganisation" in "History and Corporate Structure" to the Prospectus. As a result of the Reorganisation, the Company became the holding company of the Group.

(2) Pursuant to the Employee Share Option Scheme as described in Section C note 32, on 1 August 2010, Yashili (Guangdong) further granted 3,597,600 share options (the "2010 Employee Share Options") to 31 eligible employees of the Group for subscribing shares of

the Company at an exercise price of RMB11 per share. Pursuant to the Employee Share Option Scheme documents, the terms and conditions of the 2010 Employee Share Options are as follows:

Date Granted	Vesting date	Expiry date	Number of 2010 Employee Share Options granted Employee
			'000
1 August 2010	two months upon IPO	15 days after vesting date	719.52
1 August 2010	fourteen months upon IPO	15 days after vesting date	719.52
1 August 2010	twenty-six months upon IPO	15 days after vesting date	719.52
1 August 2010	thirty-eight months upon IPO	15 days after vesting date	719.52
1 August 2010	fifty months upon IPO	15 days after vesting date	719.52
			3,597.60

Pursuant to the relevant terms of the Employee Share Option Scheme, 2010 Employee Share Options will be converted into options of the Company with the exercise price and number of employee share options to be adjusted proportionately upon the exchange of the options. In addition, the 2010 Employee Share Options will be forfeited when the grantee ceases to be an employee of the Group for reasons other than death, ill-health or retirement.

Pursuant to the option exchange letters executed by each of the grantees in favour of the Company and Yashili (Guangdong) on 12 October 2010 (the date of modification), the 2009 and 2010 Employee Share Options were converted into Pre-IPO Share Options of the Company. Accordingly, 12,957,600 shares options under the Employee Share Option Schemes were converted into 94,975,662 share options of the Company with same terms and conditions, except that the respective exercise prices were adjusted on a proportionate basis. The conversion of the share options was considered as a modification to the 2009 and 2010 Employee Share Options. The modification did not result in any incremental value in respect of the fair value of the share options at the date of modification.

E. FINANCIAL INFORMATION OF THE COMPANY

The Company was incorporated on 3 June 2010 with an authorised share capital of HK$380,000 divided into 3,800,000 shares of HK$0.10 each. One nil-paid share was allotted and issued to Zhang International Investment Ltd. as of 30 June 2010 as part of the Reorganisation as detailed in the section headed "Statutory and General Information" in Appendix VI to the Prospectus. The Company has not carried out any business during the period from 3 June 2010 (date of incorporation) to 30 June 2010.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong