GOOD
quality and
healthy LIFE

雅士利®

Yashili International Holdings Ltd
雅 士 利 國 際 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)
Stock code: 01230

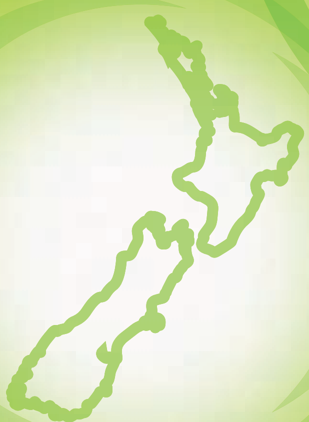
2010
Annual Report

CONTENTS

CORPORATE INFORMATION

Board of directors:	**Executive directors** Mr. Zhang Lidian Mr. Zhang Likun Mr. Zhang Liming Mr. Zhang Libo Mr. Wu Xiaonan (resigned on 19 April 2011)
	Non-executive directors Mr. Luo Yi Mr. Zhang Chi
	Independent non-executive directors Mr. Yu Shimao Mr. Chen Yongquan Mr. Samuel King On Wong
Nomination committee:	Mr. Yu Shimao *(Chairman)* Mr. Zhang Lidian Mr. Chen Yongquan
Remuneration committee:	Mr. Yu Shimao *(Chairman)* Mr. Zhang Lidian Mr. Chen Yongquan
Audit committee:	Mr. Samuel King On Wong *(Chairman)* Mr. Zhang Chi Mr. Yu Shimao
Authorized representatives:	Mr. Zhang Lidian Mr. Wu Xiaonan
Company secretaries:	Mr. Wu Xiaonan Mr. Chan Shing Yee, Joseph
Head office and principal place of business in the PRC:	Yashili Industrial City Chaoan Avenue Chaozhou City Guangdong 515638 The People's Republic of China
Principal place of business in Hong Kong:	Room 1614 16th Floor Times Square Shell Tower 1 Matheson Street Causeway Bay Hong Kong

Registered address:	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong share registrar:	Computershare Hong Kong Investor Services Limited Shops 1712–1716 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Investor relations department:	Office of the board
Principal bankers:	Bank of Communications, Shantou Changping Branch Industrial and Commercial Bank of China, Chao'an Branch
Legal advisers:	*Hong Kong law:* Orrick, Herrington & Sutcliffe *Cayman Islands law:* Conyers, Dill & Pearman
Compliance adviser:	Guotai Junan Capital Limited
Auditor:	KPMG *Certified Public Accountants*
Stock code:	Hong Kong Stock Exchange 01230
Company's website:	www.yashili.hk



DEAR FELLOW SHAREHOLDERS,

Year 2010 is a year of change to our Group. During the year, we have pioneered in China to establish our Food Quality and Safety Advisory Committee with experts around the world; we have upgraded and internationalized our senior management team; we have completed our first round-the-world road show; and we have had our first time to invite prominent leaders in Hong Kong and mainland China to join our board of directors to strengthen our corporate governance. The most important of all, we have successfully listed in Hong Kong. All these cannot be achieved without the sincere support from our shareholders, government, customers, employees and suppliers.

YASHILI DELIVERED SOLID FINANCIAL PERFORMANCE IN 2010

We demonstrated the strength and resilience of both our people and investment by delivering solid operating performance and generating significant operating cash flow.

- Revenue grew 14.2%
- Operating profit rose 20.5%
- EPS grew 21.4%
- Operating cash flow reached RMB313.0 million
- Dividend at RMB7 cents per share

Please let me share with you in more details of our financial performance in 2010:

The Group's total revenue was RMB2,954.4 million, 14.2% higher than the preceding year.

The Group's profit attributable to shareholders for the year amounted to RMB502.4 million, a 24.1% increase compared to the preceding year. Earnings per share were RMB17 cents (2009: RMB14 cents).

STRATEGIES TO DRIVE OUR GROWTH

We continue to focus on delivering market leading financial performances while making investments in different regions and product categories to drive sustainable growth. Our growth is founded on the following long term growth strategies:

1. *Strengthen product quality*
   Delivering high quality and safe products is important to our growth. In 2010, we have launched two initiatives:

   (i) Since the end of June 2010, we have used 100% imported raw milk powder from high-quality overseas dairy sources, primarily in New Zealand, for producing our pediatric milk formula products. We believe that by doing so, we can distinguish ourselves from other domestic pediatric milk formula manufacturers.

   (ii) In August 2010, we have pioneered to establish the Food Quality and Safety Advisory Committee composed of experts from around the world reporting to the Board. The Committee introduces industry best practices, provides strategic guidance, advises on regulatory compliance, provides latest industry information and evaluates our quality control system. The Committee can also conduct independent investigations into our food quality and safety matters when necessary.

In the time to come, we plan to upgrade our existing manufacturing facilities in Chaozhou to meet the criteria in US for pediatric milk formula production. We also plan to expand into upstream operations overseas and establish vertically-integrated production facilities. We believe that we can have better control over supply and quality of raw milk powder as a result.

2. *Strengthen brand recognition*

Brand recognition is important to sustain our growth. Our objectives are to cultivate greater awareness and acceptance of our products, enhance association of our brand names with high quality and safety and foster brand loyalty. During the year, we have better coordinated our advertising work and promotional activities.

In 2010, we have spent on television advertising on major nation-wide and local television networks and contracted with high-profile celebrities as our spokespersons for our products. We have launched new packaging and advertising campaigns to associate our brand with high-quality and 100% imported raw milk powder. We have spent on print media to enhance our brand image. We have also sponsored public charities and foundations in order to cultivate a socially responsible brand image to the general public.

To leverage the power of internet, we have displayed advertisements and launched promotional activities at prominent portals and baby forum websites to reach more young parents. For example, we have created consumer loyalty programs, providing customer service hotlines, on-line consumer communities, complimentary publications and promotional information. Our service hotlines provide consultation services from our baby care specialists while our on-line consumer communities provide a platform for consumers to share experience and provide product feedback. We also regularly conduct telephone interviews to our members for analyzing consumer behavior.

In 2010, we entered into contracts with retail outlets to maintain our product zones and install in-store displays featuring our logos to reinforce our brand image. We deployed sales promoters in major retail outlets to promote our products and collect feedback from consumers.

In the time to come, we will intensify our brand building work to increase our market share.

3. *Expand sales channels*

Given the rapid economic growth in China, the increase in disposable income, the increase in urbanization, and the potentially growing birth rate, we believe that a deep and wide-reaching sales and distribution network is important to capture market growth opportunities.

In 2010, we have increased our penetration into more second- and third-tiers cities. We have strengthened our effort in specialty stores and medical related channels. We have rationalized our distribution network to increase distribution efficiency. We have focused to increase our sales of high end products and have rationalized our product pricing.

In the time to come, we will continue to increase our penetration into more second- and third-tier cities, counties and townships. We will intensify our effort in specialty stores, medical related channels and major retail chains. We will also explore online sales channels in order to satisfy the demands and preferences of different consumer groups. Apart from high end products, we will also intensify our effort on nutritional products.

4. *Strengthen product innovation*

   We have high priority on product innovation, and have continuously invested in the research and development of products and formulas with nutritional benefits close to those in breast milk. We have invested in developing soy-based products and other products.

   In 2010, we have collaborated with Massey University in New Zealand in the research and development of pediatric formula, technologies and functional raw materials. We have also entered into collaborative arrangement with the China Agricultural University in the research and development of a high-protein specialty milk formula product for adults and the elders.

   In the time to come, we plan to construct a new food research institute in Shantou, Guangdong province, with advanced equipment and facilities to centralize our research and development work. This research institute will cover development of new products for both the pediatric milk formula and other nutritional food products.

5. *Strengthen public relations*

   We have set up comprehensive internal guidelines to pay special attention to matters drawing media attention and consumer complaints. We have strengthened our capability on collecting market information and on communicating with media and consumers.

   In the time to come, we will update our guidelines regularly. We will also regularly provide training to our employees on compliance with our internal guidelines.

Lastly, I would like to thank The Carlyle Group, our second largest shareholder, and Fosun Group for providing tremendously support to us. I would also like to thank the Board of Directors and all employees for their commitment, diligence and contributions to the Group.

Zhang Lidian
Chairman

SELECTED FINANCIAL DATA

(in millions except per share data)

Year ended 31 December	2010	2009	Change
SUMMARY OF OPERATIONS			
Turnover	**RMB2,954**	RMB2,586	+14%
Profit attributable to equity shareholders of the Company	**502**	405	+24%
Net operating cashflow	**313**	(105)	N/A
PER SHARE DATA			
Basic earnings per share	**RMB0.17**	RMB0.14	+21%
Diluted earnings per share	**0.16**	0.14	+14%
Proposed final dividend per share	**0.07**	–	N/A
Dividend payout ratio*	**49%**	–	N/A
Net asset value per share	**1.07**	0.44	+143%
BALANCE SHEET DATA			
Total assets	**RMB4,481**	RMB2,223	+102%
Net assets	**3,730**	1,290	+189%

* Proposed final dividend of RMB0.07 per share times 3,518,920,081 shares divided by profit attributable to equity shareholders of the Company of RMB502,354,000

at Yashili

food safety comes first

Milk Powder

Bean Milk

PEDIATRIC MILK POWDER INDUSTRY REVIEW

In 2010, the economy of China achieved steady growth amidst adjustment, and the income of both urban and rural residents has generally shown a considerable growth. The consumer market in China possesses a substantial degree of breadth and depth, and the economic effectiveness driven by consumption was increasingly apparent. Meanwhile, the appreciation of Renminbi also enhances the consumption and purchasing power of people towards commodity, which in aggregate, brought an unprecedented market opportunity for diary product manufacturers. In addition, China government also introduced relevant policies to consolidate and standardize diary product industry in order to firmly ensure the quality and safety of products, safeguard the personal interests of consumers and foster the healthy development of diary product industry in China.

As a major substitute of breast milk, pediatric milk formula belongs to a type of food manufactured to support the complete growth of infants. China is the world's most populous country and one of the fastest growing pediatric milk formula markets in the world. The increasing trend towards double income families in China, coupled with the convenience and complete nutritional benefits offered by pediatric milk formula products, has resulted in increased acceptance by Chinese women of pediatric milk formula as a substitute for mother's breast milk for their infants.

We are a leading player in China's pediatric milk formula industry, and also have a leading position in the soymilk powder market in China. Our business mode integrates high brand recognition, imported premium diary raw materials and proprietary formula, striving to establish a high standard of quality supervision and quality assurance system. For aspects such as supply, production and distribution chain, quality control measures are improved continuously in the pursuit of becoming a first-class enterprise in the research and production of pediatric milk formula. We strictly follows the national standard to formulate a comprehensive quality assurance plan, which is fully implemented in the corporate level, striving for providing the consumers with safe and premium products.

Rice Flour

Oatmeal

BRIEF DESCRIPTIONS ON THE BASIC INFORMATION OF THE COMPANY

Established in 1983, we mainly focus on the production and sales of pediatric milk formula products and nutrition food since 1998. In 2002, we launched the *Scient* brand pediatric milk formula. Our headquarter is situated in Chaozhou, Guangdong province with plants distributed in Guangdong, Shanxi and Heilongjiang,etc.

We have two well recognized brands, under which various product series are manufactured, marketed and sold targeting different consumer segments, of which *Yashily* is mainly positioned to middle-end and upper-end consumer segments and *Scient* is positioned to high-end consumer segment. We also sell four types of nutrition food, namely soymilk powder and pediatric rice flour under *Yashily* brand, cereal under *Zhengwei* brand as well as milk powder for adults and teenagers under *Youyi* brand.

The Group launched its public offering in Hong Kong from 20 October 2010, and was duly listed on the Main Board of the Stock Exchange of Hong Kong on 1 November 2010. The aggregate number of shares offered by the Group was 644 million shares, of which 574 million shares were new shares. The offer price was set at HKD4.2 per share, raising an aggregate amount of HKD2.4108 billion.

The successful listing of the Group in Hong Kong enables it to complete the transformation from a manufacturing enterprise to a listed company as well as from indirect financing to direct financing, realizing the internationalization of our brand and highlighting our access to the international capital market since then.

BUSINESS HIGHLIGHTS

Leveraging on the product series under well recognized brands such as *Yashily, Scient, Zhengwei* and *Youyi*, we strive to develop trustworthy nutrition products for consumers, with a view to facilitate the healthy growth of infants and young children nationwide and satisfy the nutrition needs of adults. Our business mode integrates key factors including imported premium diary raw materials, proprietary milk formula, top production system and professional marketing team with thorough knowledge on local consumer market, providing all consumers with products of assurance.

In 2010, our sales income recorded an impressive growth, realizing sales income of RMB2,954.4 million, representing an increase of 14.2% from last year. Net profit attributable to shareholders of the listing company amounted to RMB502.4 million, representing a significant growth of 24.1% from 2009.

1. *Introduction by products*

- **Pediatric milk formula products**

  We mainly develop pediatric milk formula products to satisfy the health and nutrition needs of infants and young children during daily feeding. Our pediatric milk formula could act as a major source of nutrition of infants and young children in auxiliary to breast milk. All of our branded pediatric milk formula products are mainly produced by imported premium raw milk procured from New Zealand and Australia, while some of our *Scient* series pediatric milk formula products are also imported in their original form from the United States. We are devoted to develop the milk formula with the most ideal nutrition mix to closely cater to the needs of infants and young children during different stages of their growth and development.

  We have established pediatric milk formula products targeting customers with various consumption levels and distribution. Our pediatric milk serial formula products under *Scient* brand and *Ambery*, a sub-brand of *Yashily*, possess quality nutrition ingredients and are positioned to consumers in high-end market, while *Yashily Golden Series*, our core brand, is positioned to upper-end consumer segment and *Newwitt*, the sub-brand under our *Yashily* brand, is mainly positioned to middle-end consumer segment.

- **Nutrition food**

  We also sell four types of nutrition food, namely milk powder for adults and teenagers under *Youyi* brand, soymilk powder, rice flour and cereal under *Yashily* brand and cereal series under *Zhengwei* brand.

  We manufacture and sell various milk powder products with different nutrition mix tailored for consumers with specific needs, such as milk powder for adults who need iron and calcium supplements, as well as extra vitamin and mineral products suitable for ordinary people.

  Our soymilk powder series includes six products with their nutrition ingredients formulated in accordance with needs, which are not only suitable for specific consumer segments (eg. middle-aged and elderly people and women), but also for consumer segments seeking healthy choices of nutritional products.

  Our rice flour series includes different nutrition products with different ingredients formula and various flavors, which satisfies the growth needs for infants and young children aged 6 to 36 month.

  Our cereal products include oatmeal cereal and mixed cereal, which cater to needs of specific adult groups as well as ordinary consumers.

2. *Sales strategies and presence*

- **We have a complete and highly efficient national sales and distribution network**

  We sell our products via a comprehensive national sales and distribution network, which covers all regions within mainland China. Such network comprises of around 1,300 regional distributors, who directly or indirectly further distribute our products to over 90,000 retail outlets, including supermarkets, department stores, specialty stores and large membership chain supermarkets as well as grocery stores. Our extensive distribution network is formed by more than 2,000 marketing staff under the support of 290 liaison locations and over 28,000 sales promoters deployed in over 20,000 large and middle retail location. Our strong distribution capability enables us to obtain a relatively high penetration rate in the national market at different levels, especially second- and third- tier cities, and even achieves a higher penetration rate in the market of county, town and village areas. In light of the fact that the growth rate of pediatric milk formula market in second- and third-tier cities would be much higher than that in first tier cities, we consider our popularity in second and third tier cities formulates our competitive edges as compared with competitors with international brands.

  We have implemented a system of sales management and an efficient structure of incentives to continuously attract and motivate capable distributors and staff to increase our revenue and market share. Our stringent control over our distribution network ensures that all distributors manage sales and customer contacts in their sales territories according to our distribution policy and sales strategy. Our effective product tracking system, in which a unique two-dimensional bar code is marked on each packaging unit, allows us to track the details and movement of every finished product by distributors and effectively prevent distributors' cross-territory sales. Over our long operating history, by providing our distributors with an effective system of sales management and superior sales and distribution network, we have been able to develop a stable network of distributors and establish close partnerships. Approximately 31% of our distributors had maintained a business relationship with us for over five years, of which some even span for more than 20 years. Our deep experience in managing a wide-reaching sales and distribution network has enabled us to successfully penetrate markets in second- and third-tier cities and establish leading positions. We believe that our strategy of combining a broad and deep sales and marketing system with multiple means of support for our distributors has enabled us to steadily expand our sales reach and efficiently deliver high-quality products and services to consumers.

- **Expand and solidify sales and marketing channels**

  Given the rapid development of China's economy, the increase in disposable income, and China's enormous population and stable birth rate, we believe that an expansive sales and distribution network will provide us with the ability to capture significant growth opportunities in the domestic market. In respect of products, we aim to increase our penetration in retail market across second- and third-tier cities as well as townships, where economic growth will be supported by favorable government policies. We target markets other than first-tier cities in order to establish dominance in location where international brand is relatively weak, while continuously increase the sales and marketing efforts in retail location in first-tier cities to raise our brand value nationwide. For high-end products under *Scient* brand, we plan to place more focus on first- and second-tier cities where the purchasing power of local consumers and the awareness on the importance of high-end pediatric nutrition products are relatively higher.

To further expand distribution channels, we plan to increase the number of qualified regional distributors and retail location with a view to expand our sales presence. We plan to optimize our distribution network by reducing the number of sub-distributors to strengthen our direct control over sales channels, thereby improving distributor management and enhancing cost efficiency. On top of the existing sales channels, we will also explore various kinds of new sales channels such as telephone marketing or online sales, diversifying our sales channels to continuously cater to the needs and preference of different consumer segments. We will fully utilize our expertise in product development and imported premium raw milk powder to develop high-end nutrition products which could attract the high-end consumer segment. In addition, through ongoing studies and analyses of the needs and purchasing power of different customer segments, we will also continue to develop different varieties of products catering to the specific needs and preferences of a wider range of consumer segments.

- **Sales team**

  Our experienced management team is fully dedicated to the pediatric nutrition business, formulating a unique corporate culture.

  Mr. Zhang Lidian, the co-founder and Chairman of the Board of our Group and Mr. Zhang Likun, the co-founder of the Group and the Chairman of Guangdong Yashili Group Company Limited ("Yashili (Guangdong)"), both possess over 25 years, over 15 years and over 10 years of experiences in food industry, nutrition and diary product industry and pediatric nutrition and diary product industry respectively. Furthermore, Mr. Zhang Lidian assumes various key positions in China Dairy Industry Association (中國乳製品工業協會). We consider both Mr. Zhang Lidian and Mr. Zhang Likun have shown convincing track records in respect of deep understanding of the market, corporate management and execution capabilities.

  We consider that our focus on pediatric milk formula distinguishes us from various major competitors, whose business scopes are much wider with pediatric milk formula products generally representing only a relatively little portion in all of their products and sales. Apart from that, the directors and senior management play an important role in communicating and establishing the unique and clear corporate culture to raise sense of responsibility and strive for success and innovation, thereby supporting our unfailingly premium products. We provide competitive compensation and establish training and career development plan, which help us to attract skilled and experienced management personnel with domestic and foreign background to join, as well as motivating and retaining them to work with us dedicatedly.

  In addition, under the leadership of our management as well as the great support from our financial investors, Carlye and Fosun, we have formulated a set of corporate governance approaches and operation standards covering all major elements of the best international practices. The visions and solid industry knowledge of our directors, senior management and major investors enable us to formulate excellent business strategies, having better risk assessment and management as well as making estimates and responses to changes in consumers' preference at appropriate times, while positioning us strategically to capture material market opportunity. We consider that our management team has strong leadership, dedication and professional qualifications, which could ensure the sustainable development of our business and drive future business development.

3. *Quality supervision*

Quality and safety of products are of utmost importance to the growth of our Group. In 2010, we have implemented the following two measures:

(i) Since the end of June 2010, we have been using 100% imported raw milk powder from high-quality overseas dairy sources, primarily in New Zealand, for producing our pediatric milk formula products. We believe such measure enables us to distinguish ourselves from other domestic pediatric milk formula manufacturers.

(ii) In August 2010, we took the initiative to establish the Food Quality and Safety Committee formed by experts from worldwide, which reports directly to the Board. The Committee introduced the best operation mode within the industry, providing strategic guidance on our relevant standards and procedures, providing industry information in relation to food safety and quality control and assessing our quality control system, so as to ensure our quality and safety management system is in line with the top level of international standard. The Committee could also conduct independent investigation on our quality and safety system at any time.

We intend to upgrade our existing manufacturing facilities in attempt to meet the criteria in US for pediatric milk formula production lines. We also intend to explore upstream business overseas via establishing vertically-integrated production facilities, and accordingly, we believe that we could better control the supply and quality of raw milk powder.

4. *Brand building*

Brand recognition is highly critical to maintaining our growth. We aim to link our brand with quality and safety to raise the recognition and acceptance of our brand and to strengthen brand loyalty. During the year, we continued to strengthen the integration of the brand promotion and advertising campaigns to raise the effectiveness of our promotion.

In 2010, we broadcasted our advertisements in major national TV channels and local TV networks, while inviting celebrities to assume the role of our brand spokespersons. We launched advertisement and new packages for promoting our premium and 100% imported raw milk powder, and also contributed resources into printed media to strengthen our brand image. Also, we sponsor charitable organizations to promote our brand image as one with social responsibility to the public.

Leveraging on the influence of the internet, we have distributed advertisements on renowned websites and baby forum and conducted promotional campaigns to get further access to more young parents, such as:

For our *Yashily* family of brands, we have created a free-to-join loyalty program, namely "the Love Baby Home membership program", which provides customer service hotline, on-line consumer community and free publications. Our service hotline provides consultation service of baby care specialists, while our on-line consumer community provides customers with a platform to share their experience as well as product feedback.

5. *Product research and development*

- **Research and development team and collaboration organization**

  In 2010, we collaborated with Massey University in New Zealand in the research and development of pediatric formula, technologies and functional raw materials. In addition, we have entered into a collaborative arrangement with the China Agricultural University in connection with the research and development of a high-protein specialty milk formula for middle-aged and elderly people.

  We intend to build a new food research and development center equipped with advanced laboratory equipment and facilities to centralize our research and development. Such research and development centre will focus on the research and development of pediatric milk formula, soybean products and other nutrition food.

- **New product development**

  We emphasize on product innovation, and continuously invest in the research and development of products and formula with nutrition ingredients close to breast milk. We also invest in the development of other soybean products and other products for adults and elderly.

6. *Business outlook*

- **Impact of policies**

  Since the end of 2010, supervisory authorities under China government have introduced a series of policies and systems towards the pediatric milk powder market, which objectively eliminating some small and non-standardized enterprises. Keen competition among large diary enterprises would be an inevitable outcome under the insistence on modern industry system by the state.

  As the pediatric milk powder industry is a production and manufacturing industry with high level of technology and standards, supervisory authorities under China government conducts stringent enforcement and supervision on the industry, the overall operation order of the industry and the quality control would be further safeguarded. The reputation of the whole pediatric milk powder industry will no longer be affected by individual non-standardized small enterprises, and the production and competition environment of the industry will be further standardized. Under the new national industry policy, we will continue to insist on procuring premium milk sources and impose strict milk source management; adopt world leading production facilities for production; attract outstanding management talents; impose stringent procedure on quality management, strict inspection system and use advanced and excellent inspection equipment; comprehensively and reasonably adopt nutritious and safe formula for production; ensure the scientific management of the whole supply chain from milk source to production and from inspection to distribution, and guarantee the fresh consumption date for products. We are confident to accept irregular sample check from third parties at any time with the basis that quality is the foundation of all, benefiting consumers via manufacturing high quality milk powder. In addition, with the high degree of our self-discipline, we are well positioned to move a great leap forward amidst such industry policy.

- **Industry trend**

  According to the anticipation of relevant authorities, large domestic brands have already occupied over 50% of market shares. In the next three to five years, with the average annual growth rate of 15% in China pediatric diary product market maintained, together with the accelerating growth of China's GDP and the increase in disposable income per capita, the demand in the high-end market is increasing. The growth rate of high-end pediatric milk powder is higher than that of the overall category, making high-end series products an important growth source for corporate profitability and brand image.

In the coming three to five years, China will encounter the fourth birth bloom. With the acceleration of domestic industrialization and urbanization, urban markets will gradually become the allocation mechanism of labor resources, and the flow of population among large cities is becoming more apparent. In particular, the responsibility of feeding babies in China of over 40,000 towns and villages is basically assumed by large domestic brand milk powder enterprises such as our Group.

In 2010, the scale of internet shopping in China reached 723.0 billion, and is estimated to grow by 220% in 2014. In particular, the growth rate of internet shopping among consumers in second- and third- tier cities would be much greater than that in first-tier cities. We would leverage on the advantage of strong coverage by the internet and newly establish a network e-commerce team to allow more young consumers from second-, third- and fourth-tier cities to get involved in the on-line activities for any product.

In the future, the monopolistic advantages of international chain outlets will cease to dominate the pediatric milk powder sales market. Since baby care stores have become an important retail terminal for pediatric milk powder sales, the number of new baby care stores will grow more rapidly in second- and third-tier cities under the chain effect of first- and second-tier cities, providing us with a more extensive sales platform.

- **Corporate strategy**

  In our opinion, brand competition is a comprehensive competition in terms of the management of quality and strength of brand.

  We concern about the quality and safety of our products, striving with the ultimate goal of becoming the most outstanding pediatric milk formula manufacturer. To achieve such goal, we insist on the policy of adopting imported premium diary materials to distinguish ourselves from other domestic pediatric milk formula manufacturers, who generally source all or most part of their diary raw materials locally. We insist that the quality management for all products shall follow the five principles below from milk sources to final products in the process of production and management:

  (1) procure premium milk sources and impose strict milk source management;

  (2) comprehensively and reasonably adopt nutritious and safe formula for production with the adoption of international leading production facilities;

  (3) impose stringent procedure quality management, strict inspection system and use advanced and excellent inspection equipment;

  (4) strictly ensure the scientific management of the whole supply chain from milk source to production and from inspection to distribution;

  (5) continuously attract outstanding talents to conduct production management in a highly efficient manner.

  Coupled with the irregular sample check by the government, it could be ensured that all sold products have satisfied safety qualification and are traceable, giving confidence to consumers on purchasing our products.

Creating more excellent products and establishing professional brand image are the work focus which we strive to achieve. We will also establish comprehensive product structure to satisfy the needs of consumers at all market segments. On the foundation of insisting the promotion of upper-end products, we continuously launch premium- and high-end products to the market while increasing the penetration of middle-end low price products in the towns and villages; meanwhile, professional teams are established to serve the expansion of product distribution channels, ensure rapid penetration of product distribution and increase market shares, while strengthening our overall profitability.

At the same time, we will establish professional teams to develop professional products to dedicate to the development of baby care channels and e-commerce, thereby maintaining our dominance in third- and fourth-tier markets while expanding the maintenance of international outlets in first- and second-tier cities. New marketing means such as network marketing would be adopted actively, and new consumption and purchase behavior of consumers would be captured.

We select celebrities with healthy image as our brand spokespersons to strengthen the friendliness of our brand image. Professional planning team is introduced to implement the integration of marketing and promotion of our brand, as well as establish and optimize brand promotion plans to integrate elements such as advertisement, sales promotion, marketing campaigns and packaging to raise the effectiveness of brand promotion and deeply emphasize the information or image on our brand in the mind of target consumer segments. Brand assets would be gained from the promotion of such brand information to consumers via such measures and strategies, thereby raising our brand reputation.

OUR FINANCIAL RESULTS

Our key results and performance ratios are set out as follows:

Year ended 31 December	**2010**	2009	**Change**
(All amounts in RMB million unless otherwise stated)			
Key results			
Turnover	**2,954.4**	2,586.0	+14.2%
Gross profit	**1,681.7**	1,490.4	+12.8%
Operating profit	**590.6**	490.0	+20.5%
Profit attributable to equity holders of the Company	**502.4**	404.7	+24.1%
Net operating cash flow (Note 1)	**313.0**	(105.5)	N/A
Basic earnings per share (RMB) (Note 2)	**0.17**	0.14	+21.4%
Diluted earnings per share (RMB) (Note 3)	**0.16**	0.14	+14.3%
Net asset value per share (RMB)	**1.07**	0.44	+143.2%
Key performance ratios			
Profitability ratios			
Gross profit margin	**56.9%**	57.6%	
Operating profit margin	**20.0%**	18.9%	
Net profit margin	**17.0%**	15.6%	
Margin of profit attributable to equity holders	**17.0%**	15.6%	
Return to net asset	**13.5%**	31.2%	
Return to total asset	**11.2%**	18.1%	
Asset ratios			
Current ratio (Note 4)	**5.0**	1.4	
Inventory turnover days (Note 5)	**112 days**	97 days	
Trade receivable turnover days (Note 6)	**24 days**	11 days	
Trade payable turnover days (Note 7)	**70 days**	92 days	
Debt to equity ratio (Note 8)	**20.1%**	72.3%	
Gearing ratio (Note 9)	**3.5%**	10.3%	

Notes:

1. Cash inflow generated from operating activities for the year less cash outflow generated from operating activities for the year.
2. Profit attributable to equity holders of the Company for the year divided by the weighted average number of ordinary shares in issue before dilution for the year.
3. Profit attributable to equity holders of the Company for the year divided by the weighted average number of ordinary shares in issue after dilution for the year.
4. Total current assets at year end divided by total current liabilities at year end.
5. Inventory balances at year end divided by cost of sales for the year and multiplied by 365 days.
6. Balances of trade and bills receivables at year end divided by turnover for the year and multiplied by 365 days.
7. Balances of trade and bills payables at year end divided by cost of sales for the year and multiplied by 365 days.
8. Total liabilities at year end divided by equity attributable to total equity holders of the Company at year end.
9. Total interest-bearing bank loans at year end divided by total assets at year end.

TURNOVER

The Group's revenue for the year 2010 amounted to RMB2,954.4 million, a 14.2% increase compared to the preceding year.

Revenue breakdown by brand and product category

	2010		2009		
	RMB million	**%**	RMB million	%	**Change**
Yashily pediatric milk formula products	**1,816.1**	**61.5**	1,540.4	59.6	+17.9%
Scient pediatric milk formula products	**624.3**	**21.1**	521.3	20.2	+19.8%
Nutrition products	**466.7**	**15.8**	507.6	19.6	−8.1%
Others	**47.3**	**1.6**	16.7	0.6	+183.2%
Total	**2,954.4**	**100.0**	2,586.0	100.0	+14.2%

Revenue from our *Yashily* pediatric milk formula products increased by 17.9% from RMB1,540.4 million in 2009 to RMB1,816.1 million in 2010. This was mainly due to the fact that we were able to increase selling prices of our products and improve our product mix.

Revenue from our *Scient* pediatric milk formula increased by 19.8% from RMB521.3 million in 2009 to RMB624.3 million in 2010. This was mainly due to the fact that we were able to increase selling prices of our products, improve our product mix and increase sales volume.

Revenue from our nutrition products decreased from RMB507.6 million in 2009 to RMB466.7 million in 2010. This was mainly due to decrease in sales volume of soymilk powder arising from selling prices increase.

Revenue from other products increased from RMB16.7 million in 2009 to RMB47.3 million in 2010, primarily due to the increase in the sales of surplus raw material.

Percentage of revenue by sales channel

	2010	2009	**Change**
Wholesale to distributors	**98.4%**	99.1%	−0.7%
Direct sales to retail outlets	**1.6%**	0.9%	+0.7%
	100.0%	100.0%	0.0%

Percentage of revenue by geographical location

— Yashily pediatric milk formula and nutrition products:

	2010	2009	**Change**
Eastern China[1]	**36.8%**	36.8%	0.0%
Southern China[2]	**34.8%**	33.6%	+1.2%
Northern China[3]	**14.0%**	14.9%	–0.9%
Western China[4]	**14.4%**	14.7%	–0.3%
Total	**100.0%**	100.0%	0.0%

(1) Includes Shandong, Jiangsu, Henan, Anhui, Hubei, Zhejiang and Shanghai.
(2) Includes Fujian, Hainan, Guangdong, Guangxi, Guizhou, Hunan and Jiangxi.
(3) Includes Beijing, Tianjin, Hebei, Jilin, Liaoning, Heilongjiang, Shanxi and Inner Mongolia.
(4) Includes Sichuan, Shaanxi, Gansu, Qinghai, Yunnan, Xinjiang, Chongqing, Ningxia and Tibet.

— Scient pediatric milk formula products

	2010	2009	**Change**
Eastern China[1]	**27.9%**	28.9%	–1.0%
Southern China[2]	**30.5%**	28.5%	+2.0%
Northern China[3]	**22.6%**	22.4%	+0.2%
Western China[4]	**19.0%**	20.2%	–1.2%
Total	**100.0%**	100.0%	0.0%

(1) Includes Hunan, Hubei, Anhui, Zhejiang, Jiangsu and Shanghai.
(2) Includes Guangdong, Fujian, Hainan and Jiangxi.
(3) Includes Shandong, Henan, Hebei, Liaoning, Heilongjiang, Jilin, Beijing and Tianjin.
(4) Includes Guangxi, Guizhou, Yunan, Shaanxi, Shanxi, Sichuan, Gansu, Xinjiang and Chongqing.

Percentage of revenue by city tiers

— Yashily pediatric milk formula

	2010	2009	**Change**
First-tier cities[1]	**16.9%**	19.7%	–2.8%
Second-tier cities[2]	**55.4%**	56.2%	–0.8%
Third-tier cities and others[3]	**27.7%**	24.1%	+3.6%
Total	**100.0%**	100.0%	0.0%

(1) Includes Beijing, Shanghai, Nanchang, Chongqing, Shijiazhuang and Guangzhou.
(2) Includes Dongguan, Nanyang, Jiujiang, Shenzhen and Foshan.
(3) Includes Jinjiang, Yunmeng, Bozhou, Kunshan and Luohe.

– **Scient pediatric milk formula**

	2010	2009	**Change**
First-tier cities[1]	**14.6%**	18.2%	–3.6%
Second-tier cities[2]	**74.6%**	72.7%	+1.9%
Third-tier cities and others[3]	**10.8%**	9.1%	+1.7%
Total	**100.0%**	100.0%	0.0%

(1) Includes Beijing, Shanghai, Nanchang, Chongqing, Shijiazhuang and Guangzhou.
(2) Includes Dongguan, Nanyang, Jiujiang, Shenzhen and Foshan.
(3) Includes Jinjiang, Yunmeng, Bozhou, Kunshan and Luohe.

COST OF SALES AND GROSS PROFIT

The Group's cost of sales for the year 2010 amounted to RMB1,272.6 million, a 16.2% increase compared to the preceding year.

The Group's gross profit for the year 2010 was RMB1,681.7 million, 12.8% increase compared to 2009. The Group's gross profit margin for the year 2010 was 56.9%, 0.7 percentage point decreased from 2009.

The increase in gross profit amount was mainly due to sales growth and improvement in product mix. Despite cost increase, gross profit margin was sustained at approximately 2009 level due to our continued effort in rationalising our pricing, product mix and improving efficiency.

OTHER REVENUE

Other revenue amounted to RMB61.2 million, a 76.4% increase compared to the preceding year.

Other revenue mainly consisted of government grants, compensation income, write-off of trade payables, rental income, exemption of value-added tax ("VAT") expenses and others. Increase was mainly due to exemption granted in current year with respect to VAT expenses in prior years amounting to RMB22.8 million (2009: Nil).

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses amounted to RMB957.5 million, a 7.3% increase compared to the preceding year. Selling and distribution expenses accounted for 32.4% (2009: 34.5%) of the Group's revenue. The moderate increase was due to sales growth and our continued improvement in efficiency.

Selling and distribution expenses consisted primarily of advertising expenses, promotional expenses, transportation expenses, salaries and employee benefits for sales personnel and other related expenses.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses amounted to RMB182.8 million, a 41.6% increase compared to the preceding year. Administrative expenses accounted for 6.2% (2009: 5.0%) of the Group's revenue.

Administrative expenses consisted primarily of salaries and employee benefits of administrative and management staff, depreciation and amortization expenses, travel and entertainment expenses, audit fees, research and development expenses, provisions for doubtful receivables, office rental expenses and other related expenses.

The increase was primarily due to staff cost incurred to strengthening our management team and listing expenses incurred during the year.

FINANCE INCOME

The Group's finance income amounted to RMB11.9 million, an increase of 251.8% compared to the preceding year. Our finance income mainly consisted of bank interest income. The increase was primarily due to additional bank interest income arising from improvement in operating cash flow and listing proceeds received during the year.

FINANCE COSTS

The Group's finance costs amounted to RMB13.0 million, a decrease of 40.9% compared to the preceding year. Finance costs primarily consisted of interest expenses on bank borrowings.

The decrease was primarily due to the decrease in the weighted average balance on our outstanding bank borrowings.

INCOME TAX EXPENSE

The Group's income tax expense amounted to RMB86.3 million. The effective tax rate was 14.6% and was comparable to the preceding year.

PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The Group's profit attributable to equity shareholders of the Company amounted to RMB502.4 million, a 24.1% increase compared to the preceding year. Margin of profit attributable to equity shareholders of the Company was 17.0%, an increase of 1.4 percentage points compared to the preceding year. This was mainly due to sales growth and continued improvement in efficiency.

PROVISION FOR DOUBTFUL DEBTS

At 31 December 2010, we had provision for doubtful debts of RMB1.6 million (2009: RMB1.3 million). The provision was for individually impaired receivables relating to customers that were in default or delinquency of payments. We do not hold any collateral or other credit enhancements over such amounts. We regularly reviewed aging of receivables and considered provision based on a number of factors such as whether the debtors encounter significant financial difficulties, the probability that the debtor will file for bankruptcy or be subject to financial reorganization, and the possibility of default or delinquent payments.

PROVISION FOR IMPAIRMENT AND DISPOSAL LOSSES OF INVENTORIES

At 31 December 2010, we had provisions for impairment of inventories of RMB0.7 million (2009: RMB30.6 million). In addition, we also recorded losses on disposal of inventory of RMB8.0 million (2009: RMB9.5 million), which were primarily relating to general stocktake losses, disposal of dampened or deteriorated inventory and disposal of unused packaging materials.

PLEDGE OF ASSETS

At 31 December 2010, property, plant and equipment with carrying amounts of RMB108.6 million (2009: RMB195.5 million), investment properties with carrying amounts of RMB70.1 (2009: RMB43.1 million), lease prepayments, with carrying amounts of RMB38.4 million (2009: RMB42.3 million) and bank deposit with carrying amount of RMB32.9 million (2009: RMB9.0 million) were pledged to secure certain bank borrowings and services of the Group. In addition, bank deposits amounting to RMB9.4 million (2009: RMB10.7 million) were frozen by a PRC court in relation to certain pending litigations.

LIQUIDITY AND CAPITAL RESOURCES

The Group's liquidity has been strengthened due to the successful listing in the Hong Kong Stock Exchange. The net listing proceeds received amounted to RMB1,981.5 million.

Operating activities

In 2010, our operations provided RMB313.0 million of cash, compared to net cash outflow of RMB105.5 million in the preceding year. The strong cash inflow was mainly due to advance payment received from most of our sales and our working capital operation being normalised during the year.

Due to macro economic policies in China in the second half of 2010, our trade receivable turnover days and trade payable turnover days were slightly affected. We foresee that the situation will improve in the coming year.

Investing activities

In 2010, net cash used for investing activities was RMB51.0 million, primarily reflecting capital expenditure in property, plant and machinery.

Financing activities
In 2010, net cash generating from financing activities was RMB1,840.4 million, primarily reflecting RMB1,965.8 million of listing proceeds received (net of exchange loss arising from conversion of part of listing proceeds), proceeds from loans and borrowings amounting to RMB173.1 million, release of restricted bank deposits in relation to bank loans amounting to RMB90.2 million, payment for acquisition of non-controlling interest amounting to RMB30.7 million, repayment of bank loan amounting to RMB345.2 million and interest expense payment amounting to RMB12.9 million.

Loans and borrowings
See Note 27 for details of our loans and borrowings at 31 December 2010.

We annually review our capital structure with our Board, including our dividend policy and share repurchase activity. We did not repurchase any share in 2010.

INTEREST RATE RISK

Except for bank deposits with stable interest rates, the Group has no other significant interest-bearing assets. The Group has not obtained any loans and borrowings at variable interest rates.

FOREIGN CURRENCY RISK

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. In addition to above, with establishment of overseas entities, the Group is exposed to foreign currency risk on bank deposits, other receivable and bank loans of the overseas entities

The Group received approximately HKD2.4 billion from the global offering. In order to mitigate the exchange risk arising from the appreciation in the value of Renminbi against HK dollars, the Company converted major into RMB.

USE OF LISTING PROCEEDS

The Company's share were listed on the Stock Exchange on 1 November 2010. Net proceeds received amounted to RMB1,981.5 million. Details of the intended uses are set out below:

- expand our production capacity for pediatric milk formula and nutritional food products, including the construction of a new production plant at Chaozhou, Guangdong province, the resumption of construction for a production plant at Zhengzhou, Henan province, as well as the upgrade of our existing manufacturing facilities in Chaozhou, Guangdong province;

- acquire integrated dairy companies engaged in the production of raw milk and raw milk powder and establish vertically integrated production facilities overseas;

- enhance our existing brand equity and promote awareness of our new sub-brands through increased advertising on major television networks and popular baby forum websites, as well as in leading magazines, newsletters and other print media, in the following three years;

- enhance our research and development capabilities, including the set up of a new food research institute in Shantou, Guangdong province and procure state-of-the-art technologies and laboratory equipment, hiring additional skilled engineers, expert nutritionists and research staff, and funding research projects with major universities, biotechnology companies and reputable third-party research institutes in China;

- develop and promote sales of our existing and new products, including imported pediatric milk formula products, milk formula and other nutrition products for adults and the elderly, as well as to continuously expand and optimize our distribution network to fund relevant expenses for (i) maintaining and optimizing our distribution network; (ii) increasing our penetration of sales channels and expanding geographical coverage; (iii) integration of our inventory and sales management system with those of our distributors; and (iv) increasing our sales staff and onsite sales promoters in the following three years; and

- fund our working capital and general corporate purposes.

During the period from 1 November 2010 (listing date) to 31 December 2010, we have commenced preparation for the intended uses. We foresee that we will commence using approximately RMB200 million on the production plant in Zhengzhou, Henan shortly.

MANAGEMENT SYSTEM

1. *General situation*

   In 2010, all departments under the Group have realized our spirit of fully raising management capabilities in a serious and thorough manner, optimizing business structure, raising economic effectiveness and realizing the sustainable and healthy development of our internal management. Specific measures include: raise the understanding and strengthen staff's "mastery" awareness, so that they would be conscious of maintaining the reputation and brand of our Group and thus strengthens the fundamental protection for our development; clearly determine the mode to continue to promote the construction and implementation of our ERP system, as well as enhance every aspects of fundamental management; realize a relatively rapid growth of business scale via detailed deployment and innovative operation; adjust structure and unify the pace to foster the co-ordination and development of all departments in unity; solidify foundation and raise the management and control capabilities of the Group over all departments and subsidiaries; strengthen the support to create a better atmosphere for development.

2. *Public relations and risk management*

   With the maintenance of an active and effective means of promotion, we disseminate relevant information to external parties in a public and transparent manner. We also maintain good communication with all promotion departments and authorities to update the latest company information on a timely basis, as well as taking an active role in participating in various social welfare and charitable events.

   We have internally established a set of complete risk management methods and response mechanism, and address complaints from consumers and issues concerned by the media via our risk management team in a timely and accurate manner. Meanwhile, we are highly concerned about possible problems reflected by the market, and provide good service to consumers in advance to prevent the occurrence of risks.

3. *Situation of staff*

   As at 31 December 2010, the Group has 5,194 full-time employees.

   We place high concern on the motivation of staff, and have established a competitive and fair remuneration management system. Staff remuneration includes basic salary, performance-based bonus, welfare and benefits, such as medical, unemployment and occupational injury insurance as well as pension. We have adopted the share options scheme with the objectives of aligning the interests of employees with the Group as well as attracting and retaining more outstanding talents.

   We emphasize on long-term training of our staff, placing concern on the development and effective utilization of our staff's capabilities. A three-tier training system is also formulated to establish regular training programs for all of our employees, providing them with professional training in respect of professional knowledge and management skills in long run.

To continuously raise the standard of human resource management, we have engaged a professional management consultant firm to conduct optimization with focus on management and control mode, organization structure, positions and duties as well as performance management system and remuneration and welfare policies, thereby realizing upgrades in respect of human resources management platform and further promoting the enhancement of effectiveness of our human resources management.

SITUATION OF CORPORATE GOVERNANCE AND INVESTOR RELATIONS

We strive to maintain a high level of corporate governance to safeguard the interests of our shareholders as well as enhance corporate value and accountability. We also deeply understand good corporate governance suitable for the operation and growth of our business is of utmost importance to the success and sustainable operation of the Group. We adopt and comply with the principles as set forth in the Code on Corporate Governance Practices under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). In addition, members of our Board are subject to retirement by rotation and 30% of the members of our Board are independent directors.

We consider that effective communication with shareholders could help strengthening investor relations and strengthening investors' understanding on the business strategies and performance of our Group. The Company also deeply understands the importance of transparency and disclosure of company information in due course, which would help investors to make the best investment decision.

To foster effective communication, we have set up a website (www.yashili.hk) available for public perusal, which contains the latest information on our financial information, practices on corporate governance and other data. We will keep regular communication with shareholders and investors via telephone conferences, meetings, road show and site visit. We will also take the initiatives in organizing investor presentation and public relation events when necessary.

CORPORATE CITIZENSHIP AND SOCIAL RESPONSIBILITIES

Putting the care declaration that "the Group gets closer and mingles with others because of love" into practice, we uphold corporate citizenship with a high degree of social responsibility.

On 20 April 2010, Yashili (Guangdong) Group donated pediatric milk powder for earthquake disaster relief in Yushu, Qinghai province via China Charity Federation (中華慈善總會), China Charity International Internet Help Center (中華慈善國際互聯網救助中心) and Charity Federation of Qinghai province (青海省慈善總會).

On 30 June 2010, Chaozhou Municipality Government and "Poverty Alleviation" leading group ("扶貧濟困"領導小組) organized a donation campaign named "Poverty Alleviation Day "("扶貧濟困日"), for which the Group showed its generous support for the poverty alleviation work in its hometown by donating materials.

On 31 October 2010, the Group also donated cash to Guangdong province poverty alleviation fund association (廣東省扶貧基金會) to show support for the poverty alleviation work.

In the future, the Group will launch more caring programs and campaigns to integrate social responsibilities into its business mode and bear it deeply in mind, assuming its responsibilities to benefit the community as a corporate citizen.

Go
Global

CORPORATE GOVERNANCE PRACTICES

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Group also acknowledges the vital importance of good corporate governance to the Group's success and sustainability appropriate to the conduct and growth of our business.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

Throughout the period from 1 November 2010 (the date on which dealings in the Company's shares first commenced on the Stock Exchange) (the "Listing Date") to 31 December 2010, the Company has complied with the code provisions as set out in the CG Code, save for the deviation from code provision A.2.1, which deviation is explained in the relevant paragraph of this report.

The Company is committed to enhancing its corporate governance practices appropriate to the conduct and growth of its business and to reviewing such practices from time to time to ensure that they comply with statutory and professional standards and align with the latest developments.

THE BOARD OF DIRECTORS

Responsibilities

The board is responsible and has general powers for the management and conduct of the Group's businesses, strategic decisions and performance. The board has delegated to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the board has established board committees and has delegated to these board committees various responsibilities as set out in their respective terms of reference.

All directors carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The Company adopted the recommended best practices under the CG Code to arrange for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

Board composition

During the period under review, the board comprises ten members, consisting of five executive directors, two non-executive directors and three independent non-executive directors. The composition of the board is set out below:

Name	Position
Mr. Zhang Lidian (張利鈿)	Chairman and executive director
Mr. Zhang Likun (張利坤)	Executive director
Mr. Zhang Liming (張利明)	Executive director
Mr. Zhang Libo (張利波)	Executive director
Mr. Wu Xiaonan (吳曉南)	Executive director and company secretary (resigned as a director on 19 April 2011)
Mr. Luo Yi (羅一)	Non-executive director
Mr. Zhang Chi (張弛)	Non-executive director
Mr. Yu Shimao (余世茂)	Independent non-executive director
Mr. Chen Yongquan (陳永泉)	Independent non-executive director
Mr. Samuel King On Wong (黃敬安)	Independent non-executive director

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The relationships among the members of the board are disclosed under "Directors and management biographies" in this annual report.

Our Company was incorporated on 3 June 2010 (the "Incorporation Date"). Mr. Zhang Lidian, the Chairman and executive director, was appointed on 3 June 2010 and the four executive directors were appointed on 25 June 2010. The two non-executive directors and three independent non-executive directors were all appointed on 8 October 2010. Since then and up to the date of this Report, the board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

All directors, including non-executive directors and independent non-executive directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the board for its efficient and effective functioning. Through active participation at board meetings, taking the lead in managing issues involving potential conflict of interests and serving on board committees, all non-executive directors make various contributions to the effective direction of the Company.

THE CHAIRMAN

At present, the Company does not have any officer with the title of "Chief Executive Officer". The Chairman of the board is Mr. Zhang Lidian who is primarily responsible for the overall corporate strategic planning and business development of the Group. Daily management is shared among the executive directors and senior management.

The Company will continue to review the effectiveness of the Group's corporate governance structure and consider whether any changes, including the appointment of a Chief Executive Officer and the separation of the roles of Chairman and Chief Executive Officer, are necessary.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the directors (including executive, non-executive directors and independent non-executive directors) of the Company is engaged on a service contract for a term of three years. The appointment may be terminated by not less than three months' written notice.

In accordance with the Company's Articles of Association, all directors of the Company are subject to retirement by rotation at least once every three years and any director appointed to fill a causal vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

In accordance with the Company's Articles of Association, Mr. Zhang Lidian, Mr. Zhang Liming and Mr. Zhang Libo shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting. The Company's circular dated 29 April 2011 contains detailed information of the directors standing for re-election.

Nomination committee

The Company establishes a nomination committee on 8 October 2010. The Committee comprises three members, Mr. Yu Shimao (Chairman), Mr. Zhang Lidian and Mr. Chen Yongquan, the majority of them are independent non-executive directors.

The principal duties of the nomination committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board.

The nomination committee did not hold any meeting during the year ended 31 December 2010.

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

Each newly appointed director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company's key plant sites and meetings with senior management of the Company.

Directors are continually updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for directors will be arranged where necessary.

BOARD MEETINGS

Board practices and conduct of meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notice of regular board meetings is served to all directors at least 14 days before the meeting. For other board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each board meeting or committee meeting to keep directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The board and each director also have separate and independent access to the senior management where necessary.

The senior management normally attend regular board meetings and where necessary, other board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

The Company's articles of association contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

The joint company secretaries are responsible for taking and keeping minutes of all board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and final versions are open for directors' inspection.

Directors' attendance records

During the period from the Incorporation Date to 31 December 2010, five board meetings were held (Note 2). The attendance records of each director at the board meetings are set out below:

Name of Director	Attendance
Mr. Zhang Lidian (張利鈿)	5
Mr. Zhang Likun (張利坤)	5
Mr. Zhang Liming (張利明)	5
Mr. Zhang Libo (張利波)	5
Mr. Wu Xiaonan (吳曉南)(1)	5
Mr. Luo Yi (羅一)(2)	3
Mr. Zhang Chi (張弛)(2)	3
Mr. Yu Shimao (余世茂)(2)	3
Mr. Chen Yongquan (陳永泉)(2)	3
Mr. Samuel King On Wong (黃敬安)(2)	2

Notes:

1. Mr. Wu Xiaonan resigned as a director of the Company on 19 April 2011.

2. Mr. Luo Yi, Mr. Zhang Chi, Mr. Yu Shimao, Mr. Chen Yongquan and Mr. Samuel King On Wong were appointed as directors of the Company on 8 October 2010. Three board meetings were held subsequent to the appointments of these directors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the period from the Listing Date to 31 December 2010.

The Company has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employee Written Guidelines by the employees was noted by the Company.

DELEGATION BY THE BOARD

The Board reserves for its decision all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions and responsibilities are periodically reviewed.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that board procedures and all applicable laws and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The board has established three committees, namely, the nomination committee, remuneration committee and audit committee, for overseeing particular aspects of the Company's affairs. All board committees of the Company are established with defined written terms of reference which are available to shareholders upon request.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of directors and senior management of the Group. Details of the remuneration of each of the directors of the Company for the period from the Incorporation Date to 31 December 2010 are set out in Note 11 to the financial statements.

REMUNERATION COMMITTEE

The remuneration committee was established on 8 October 2010. It comprises two independent non-executive directors, namely Mr. Yu Shimao (Chairman) and Mr. Chen Yongquan and one executive director, namely Mr. Zhang Lidian.

The roles and functions of the remuneration committee are set out in its terms of reference. Its primary duties are to evaluate and make recommendation to the board on the overall remuneration policy and structure relating to all directors and senior management of the Group.

The remuneration committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages as well as the annual bonuses of the executive directors and the senior management during the year ended 31 December 2010.

The remuneration committee did not hold any meeting during the year ended 31 December 2010.

ACCOUNTABILITY AND AUDIT

Directors' responsibilities for financial reporting in respect of financial statements

The directors acknowledge their responsibility for preparing the financial statements of the Company for the period from the Incorporation Date to 31 December 2010.

The board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The management has provided to the board such explanation and information as are necessary to enable the board to carry out an informed assessment of the Company's financial statements, which are put to the board for approval.

The board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

INTERNAL CONTROLS

The board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and reviewing the effectiveness of such system on an annual basis.

During the period under review, the board conducted a review of the effectiveness of the Group's system of internal control. It covers financial, operational, compliance and risk management aspects of the Group including adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget.

AUDIT COMMITTEE

The audit committee was established on 8 October 2010 with written terms of reference in compliance with Rule 3.21 of the Listing Rules. The committee comprises two Independent non-executive directors, namely Mr. Samuel King On Wong (Chairman) and Mr. Yu Shimao and one non-executive director, namely Mr. Zhang Chi (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the audit committee is a former partner of the Company's existing external auditor.

The primary duties of the audit committee are mainly to make recommendation to the board on the appointment and removal of external auditor; review the financial statements, provide material advice in respect of financial reporting and oversee internal control procedures of the Company.

During the period under review, the audit committee reviewed the Group's annual results and annual report for the year ended 31 December 2010, the financial reporting and compliance procedures, the report from the management on the Company's internal control and risk management systems and processes, and the re-appointment of the external auditor.

During the period under review, the external auditor was invited to attend a meeting without the presence of the executive directors to discuss with the audit committee issues arising from the audit and financial reporting matters.

The audit committee held one meeting during the period under review and the attendance records are set out below:

Name of Director	**Attendance**
Mr. Samuel King On Wong (黃敬安)	1
Mr. Yu Shimao (余世茂)	1
Mr. Zhang Chi (張弛)	1

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditor's Report" in this annual report.

During the period under review, the remuneration paid/payable to the Company's external auditor, KPMG, is set out below:

Service category	**Fees paid/payable** (RMB million)
Audit services	
— annual audit services	2.0
Non-audit services	
— reporting accountants in relation to the listing	5.8
Total	7.8

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the board and the shareholders. The Chairman of the board as well as chairmen of the nomination committee, remuneration committee and audit committee or, in their absence, other members of the respective committees, are available to answer questions at shareholder meetings.

To promote effective communication, the Company maintains a website at www.yashili.hk, where up-to-date information and updates on the Company's financial information, corporate governance practices and other information are available for public access.

SHAREHOLDER RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual directors.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.

DIRECTORS AND MANAGEMENT BIOGRAPHIES

During the period under review, our board consists of ten directors, of whom five are executive directors, two are non-executive directors and three are independent non-executive directors.

EXECUTIVE DIRECTORS

Mr. Zhang Lidian

Aged 46, was appointed as our executive director on 3 June 2010 and he is one of the co-founders of our Group and the chairman of the board of our Company. Mr. Zhang is a member of the Remuneration Committee and the Nomination Committee. He has over 20 years of experience in food and dairy industry and is primarily responsible for the overall corporate strategic planning and business development of our Group. He has also been serving as the president and the vice chairman of Guangdong Yashili Group Company Limited ("Yashili (Guangdong)") since March 1998, as a director of Shanxi Yashili Dairy Co., Ltd. ("Yashili (Shanxi)") since its incorporation in March 2006 and as a director of Scient (Guangzhou) Baby Nourishment Co., Ltd. ("Scient (Guangzhou)") since March 2002. From June 1990 to January 2003, Mr. Zhang was the deputy manager at Guangdong Yashili Food Co., Ltd ("Yashili Food"). Currently Mr. Zhang is holding a number of positions with various organizations. He serves as a representative of the eleventh National People's Congress (第十一屆全國人大代表), a member of the China Committee of the International Dairy Federation, vice chairman of the China Dairy Industry Association (中國乳製品工業協會副理事長), executive president of the 6th Committee of the Guangdong Chamber of Commerce of Private Enterprises (廣東省民營企業商會第六屆理事會執行會長), executive vice-president of the Guangdong Food Industry Association (廣東省食品行業協會常務副會長), and vice-president of the Chaozhou Industry and Commerce Union (潮州市工商業聯合會副會長). He has also received a number of awards, including the National Labor Medal (全國五一勞動獎章), the award of National Model Worker in Light Industry (全國輕工業行業勞動模範), the title of Outstanding Private Entrepreneurs in Construction of Communist Countryside of Guangdong Province (廣東省建設社會主義新農村優秀民營企業家), and the title of Model Worker of Chaozhou City (潮州市勞動模範). He received a master degree of Business Management from Sun Yat-sen University (中山大學) in March 2007. He is a brother of Mr. Zhang Likun, Mr. Zhang Liming and Mr. Zhang Libo, our directors. He is also a brother of Mr. Zhang Lihui and a brother-in-law of Ms. She Lifang, each a controlling shareholder.

Mr. Zhang Likun

Aged 52, was appointed as our executive director on 25 June 2010 and he is one of the co-founders of our Group and the chairman of Yashili (Guangdong). Mr. Zhang has over 20 years of experience in the food and dairy industry and is primarily responsible for the overall corporate strategic planning and business development of our Group. He has been serving as the chairman of Yashili (Guangdong) since March 1998. From June 1990 to January 2003, Mr. Zhang was the deputy manager of Yashili Food. He has also been appointed as the vice president of the Technology Innovation Strategy Union of Dairy Industry (乳業產業技術創新戰略聯盟副理事長) since September 2009. Mr. Zhang completed a business management course at the Continuing Education Faculty of Jinggangshan University (井岡山大學繼續教育學院) in February 2010. He is also a brother of Mr. Zhang Lidian, Mr. Zhang Liming and Mr. Zhang Libo, our directors. He is also a brother of Mr. Zhang Lihui and a brother-in-law of Ms. She Lifang, each a controlling shareholder.

Mr. Zhang Liming

Aged 49, was appointed as our executive director on 25 June 2010 and he is one of the co-founders of our Group and an executive director. He has over 20 years of experience in food industry and is primarily responsible for the finance and taxation of our Group. He has also been serving as a director of Yashili (Guangdong) since March 1998. From June 1990 to January 2003, Mr. Zhang held a position as deputy manager at Yashili Food. He attended the Advanced Management Program for general managers organized by the China Europe International Business School from June 2007 to March 2008. He also completed a college course in Public Administration by achieving 80 credits at the Southwest University (西南大學) in January 2009. The courses taken at the university included administration science, social science, public finance, and political science. Currently he is attending the executive master of business administration course at Xiaman University (廈門大學) and is expected to complete in 2011. He is a brother of Mr. Zhang Lidian, Mr. Zhang Likun and Mr. Zhang Libo, our directors. He is also a brother of Mr. Zhang Lihui and a brother-in-law of Ms. She Lifang, each a controlling shareholder.

Mr. Zhang Libo

Aged 43, was appointed as our executive director on 25 June 2010 and he is one of the co-founders of our Group and an executive director. He has over 18 years of experience in food industry and is primarily responsible for the administration and procurement of our Group. He has been serving as a director of Yashili (Guangdong) since March 1998 and as a director of Chaoan Bisheng Decoration and Printing Co., Ltd. ("Bisheng") since its incorporation in May 2007. From June 1990 to January 2003, Mr. Zhang held position as the deputy manager and the chief engineer at Yashili Food. He studied business management at the Continuing Education Faculty of Jinggangshan University (井岡山大學繼續教育學院) in February 2010. He is also a brother of Mr. Zhang Lidian, Mr. Zhang Likun, Mr. Zhang Liming, our directors. He is also a brother of Mr. Zhang Lihui and a brother-in-law of Ms. She Lifang, each a controlling shareholder.

Mr. Wu Xiaonan (resigned on 19 April 2011)

Aged 37, was appointed as our executive director on 25 June 2010 and company secretary on 8 October 2010. He has over 10 years of experience in legal practice and joined our Group as a secretary to the board of directors and the head of legal department of our Group in February 2008. Prior to joining our Group, Mr. Wu was an attorney and a deputy director at Guangdong Boneng Law Firm from 2007 to 2008. From 2000 to 2006, he was an attorney then a partner at Guangdong Xinjie Law Firm. Mr. Wu graduated from the China University of Political Science and Law (中國政法大學) with a college diploma in law in July 1996. He has also completed undergraduate study in law at Sichuan University (四川大學) in December 2005.

NON-EXECUTIVE DIRECTORS

Mr. Luo Yi

Aged 39, was appointed as a non-executive director on 8 October 2010. Mr. Luo is also holding the position as a managing director at the Carlyle Group where he is responsible for Carlyle's investments in Asia especially in the PRC. Prior to his joining Carlyle Group in 2003, Mr. Luo has been working in investment banking for 6 years (August 1997–May 2003). Mr. Luo graduated from Southwestern University of Finance and Economics (西南財經大學) in 1993 with a bachelor's degree in International Finance. He has also obtained a Master of Business Administration with distinction from the University of Michigan in 1997.

Mr. Zhang Chi

Aged 35, was appointed as a non-executive director on 8 October 2010. Mr. Zhang is a member of the Audit Committee. Mr. Zhang is also a director at the Asia Buyout Fund of Carlyle Group and is primarily responsible for executing investments in the PRC. Mr. Zhang has more than 10 years of experience in equity investment in China, investment banking and capital market. Prior to his joining Carlyle Group in 2006, he was the Vice President of the Investment Banking Division of Credit Suisse (Hong Kong) Limited. Prior to his position at Credit Suisse (Hong Kong) Limited, he was the Vice President of the Investment Banking Department of China International Capital Corporation Limited. Mr. Zhang has obtained a master's degree in Economics from Shanghai University of Finance and Economics (上海財經大學) in 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yu Shimao

Aged 69, was appointed as an independent non-executive director on 8 October 2010. Mr. Yu is the Chairman of the Remuneration Committee and the Nomination Committee and a member of the Audit Committee. From 1993 to 2003, Mr. Yu was a director of the System Research Committee of the Guangdong People's Congress (廣東省人大制度研究會理事). In 2003, he was the chief officer of the Overseas Chinese, Ethnic, Religion and Foreign-related Affairs Committee of the Standing Committee of the People's Congress of Chaozhou (潮州市人大常委會華僑民族宗教外事工作委員會). In 1998, he was elected as a member of the eleventh Standing Committee of the People's Congress of Chaozhou (潮州市人大常委會). From 1994 to 2003, he was an associate director then a director of the Selection, Liaison and Nomination Committee (選舉聯絡人事任免工作委員會). From 1992 to 1998, Mr. Yu held the position as an associate director of the Office of the Standing Committee of the People's Congress of Chaozhou (潮州市人大常委會辦公室). From 1989 to 1992, he was an associate director of the Office of the Standing Committee of the People's Congress of Raoping County, Guangdong Province (廣東省饒平縣人大常委會辦公室). He graduated from Hunan Normal University (湖南師範大學) with a bachelor's degree in Russian language in 1964.

Mr. Chen Yongquan

Aged 72, was appointed as an independent non-executive director on 8 October 2010. Mr. Chen is a member of the Remuneration Committee and the Nomination Committee. He has been a professor at the Food Science Faculty of South China Agricultural University (華南農業大學) since 1999. He performs researches on food biochemistry, additives and functional ingredients, enzymology, and processing of agricultural and livestock products. From 1995 to 1998, Mr. Chen was the Dean of the Food Science Faculty of the South China Agricultural University. He has been hired as a counselor by Guangdong Province Government since 2006. He was awarded as the Outstanding Expert Contributing to the Food Industry during the Reform and the Opening-up of Guangdong (廣東改革開放食品行業突出貢獻專家), the Pioneer Individual of the National Starfire Scheme (全國星火計劃先進個人), and the Chinese Pioneer Work of Industry Technology Enhancement in Food Industry (中國食品工業科技進步先進工作者). Mr. Chen graduated from South China Agricultural University (華南農業大學) with a bachelor's degree in botanical protection in 1961.

Mr. Samuel King On Wong

Aged 58, was appointed as an independent non-executive director on 8 October 2010. Mr. Wong is the Chairman of the Audit Committee. He has over 30 years of experience in accounting and finance. Mr. Wong joined Ernst & Young in 1979 and was elected to its partnership in 1993. He was the Managing Partner, China Central of Ernst & Young from 2005 until his retirement at the end of 2009. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Chartered Association of Certified Accountants (''ACCA'') and the Australian Society of Certified Public Accountants, a member of Macau Society of Certified Practising Accountants and the Hong Kong Securities Institute. He was the president of ACCA Hong Kong from 1998 to 1999 and a member of the global Council of ACCA from 1999 to 2005. He was also the first non-European global President of ACCA in 2003–04. Since 2002, he has been the adjunct professor of the School of Accounting & Finance of the Hong Kong Polytechnic University. Mr. Wong was awarded the Outstanding Accounting Alumni by the Hong Kong Polytechnic University in 2002 and the Outstanding PolyU Alumni by the Hong Kong Polytechnic University in 2003. He graduated from the University of Bradford with a master degree of business administration in 1978 during which he was awarded the Binder Hamlyn Prize for the best student in financial management in 1978.

SENIOR MANAGEMENT

Mr. Wu Dinian

Aged 42, rejoined our Group in July 2010 as the Vice President and is primarily responsible for the overall management of our Group's sales & marketing. Mr. Wu has approximately 16 years of experience in sales & marketing. From July 2001 to July 2007, Mr. Wu has served as the Vice President of Yashili (Guangdong) and in charge of the sales & marketing team. Prior to rejoining our Group, Mr. Wu served as president of Guangzhou Mingdi Investment Company from July 2007 to July 2010. From October 1994 to July 2001, Mr. Wu was the manager and supervisor of sales & marketing department of Instant Noodles Business Group of Tingyi (Cayman Islands) Holding Corp. (康師傅控股) (stock code: 0322), a company listed on the Main Board of Stock Exchange. Mr. Wu received an Executive Master of Business Administration (EMBA) from South China University of Technology (華南理工大學) in January 2006. Mr. Wu graduated from Zhengzhou University of Light Industry (鄭州輕工業學院) with a Bachelor Degree of Plastics Engineering in July 1991. Mr. Wu is currently an adjunct professor of Zhengzhou University of Light Industry (鄭州輕工業學院) and Honor Speaker of the MBA Forum of South China University Technology (華南理工大學).

Mr. Xie Xunpeng

Aged 39, is the general manager of sales & marketing of our Company and is primarily responsible for sales and marketing of the whole Group. Mr. Xie has been the general manager of sales & marketing of Yashili (Guangdong) since 2008. From 2006 to 2007, he was our deputy general manager of sales & marketing. From 2003 to 2005, he was our provincial manager in charge of sales in Shanxi province. From 1999 to 2002, he was our regional manager in charge of sales in Shanxi, Hunan and Hubei provinces. From 1993 to 1998, he was a sales person of Yashili (Guangdong), then was promoted to and then progressed to be a provincial manager.

Ms. Pan Jingzhi

Aged 35, is the special assistant to the president of Yashili (Guangdong), the president of the worker union of Yashili (Guangdong) and the deputy general manager of Scient (Guangzhou). She has been the special assistant to the president of Yashili (Guangdong) since the end of 2004 and she is responsible for planning, general administration and internal coordination among the Group. She has also been the deputy manager of Scient (Guangzhou) since 2007. From 2001 to 2004, she was the manager of the operation management department. From 2001 to mid 2003, she was a manager of the general administration department. From 1996 to 2001, she was a manager of the general administration department. Ms Pan graduated from Shantou University (汕頭大學) with a college diploma in law in 1996. She also completed a undergraduate course of law at Sichuan University (四川大學) in 2005.

Mr. Chan Shing Yee, Joseph

Aged 43, FCCA, FCPA, is the chief financial officer of our Company since 2 August 2010 and company secretary since 8 October 2010, who is primarily responsible for financial management. Mr. Chan has provided private equity and international accounting services since 2006. Mr. Chan has substantial finance and management experience in Hong Kong, China, Asia and Africa. Mr. Chan joined Arthur Andersen & Co.in 1989 and has worked for PepsiCo Inc., Philip Morris Asia Limited and Hutchison Port Holdings Limited. Mr. Chan graduated from the Hong Kong Polytechnic University (香港理工大學) with a Bachelor of Arts (Hons) in Accountancy. Mr. Chan also obtained a Master of Business Administration from the Chinese University of Hong Kong (香港中文大學).

Mr. Lee Fun-ya

Aged 50, joined our Company as the chief technical officer on 20 March 2010 and is primarily responsible for research and development. He has 25 years of experience in food and beverage industry which has no relationship with Wholesome Food. Prior to joining our Group, he was the Managing Director from 2004 to 2008 of Wholesome Life Sciences Co., Ltd. He was the Group Technical Director of Vitasoy International Holdings Limited from 2000 to 2004. From 1993 to 2000, he was the Product Development Manager of Taisun Enterprise Co., Ltd. From 1992 to 1993, he was a Food Scientist at the Taiwan Food Industry Research and Development Institute. From 1998 to 2000, he was a adjunct associate professor teaching courses relating to food technology at Taiwan Shih Chien University. In 1999, he was recipient of the Outstanding Food Plant Technologist Award, honored by the Taiwan Association for Food Science and Technology in Taichung, Taiwan. Mr. Lee received a Master of Science in 1989 and a Doctor of Philosophy in Food Science and Technology in 1992 from Mississippi State University, USA.

Mr. Lee is a professional member of the Institute of Food Technologist (IFT) and American Dairy Science Association (ADSA). He was awarded the Outstanding Food Plant Technologist Award by the Taiwan Association for Food Science and Technology in 1999.

Mr. Chen Xiaohong

Aged 36, is the manager of external affairs of our Company and is primarily responsible for liaison with authorities and agencies. He has been the manager of external affairs of Yashili (Guangdong) since May 1997. He has also been the supervisor of the Supervisory Board of Yashili (Guangdong) since March 2008. Mr. Chen graduated from Hanshan Normal University (韓山師範學院) with a college diploma in finance in June 1996.

Mr. Tong Chengfu

Aged 44, is the general manager of R&D and is primarily responsible for research and development. Mr. Tong has been the general manager of R&D at Yashili (Guangdong) since 2007. From 2005 to 2006, he was the manager of external cooperation department. From 2000 to 2005, he was the chief engineer and a factory manager of the milk powder plant. From 1995 to 2000, he was a section head of manufacturing at Heilongjiang Weiquan Dairy Co., Ltd. From 1988 to 1995, he was the development manager at Heilongjiang Dairy Factory. He is a member of the Technical Expert Committee of the Technology Innovation Strategy Union of Dairy Industry (乳業產業技術創新戰略聯盟副理事). He graduated from the Northeast Agricultary University (東北農學院) with a college diploma in processing of livestock and agricultural products in 1988.

Mr. Li Mengchun

Aged 38, is the general manager of quality control of our Company and is primarily responsible for quality control. Mr. Li has been the general manager of quality control at Yashili (Guangdong) since June 2004. From June 2003 to June 2004, Mr. Li was the production manager, the logistic manager, the project manager and the technology manager at Xiamen HEK Group. From April 1996 to February 1999, he was the manager of quality control at Ting Hisin Co., Ltd. Mr. Li graduated from the Xiangtan University (湘潭大學) with a bachelor's degree in chemical engineering in June 1994.

Mr. Jiang Weijian

Aged 31, is the financial manager of our Company and is primarily responsible for accounting and finance. Mr. Jiang has been the financial manager at Yashili (Guangdong) since September 2008. From June to August of 2008, he was the accounting manager at HC360. com. From August 2005 to June 2008, he was the senior project manager at Reanda Certified Public Accountants Co., Ltd. From December 2003 to August 2005, he was a certified public accountant the director of auditing at Heilongjiang Yazhong Accounting Firm. From August 2000 to August 2003, he worked at the China Agriculture Bank, Heilongjiang Branch. Mr. Jiang is a professional member of the Chinese Institute of Certified Public Accountants. He graduated from Harbin College of Finance (哈爾濱金融高等專科學校) with a college diploma in economic information management & computer applications in 2000.

The directors have pleasure in presenting their report together with the audited consolidated financial statements for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in Note 20 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year under review.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2010 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 57 to 123 of this annual report.

DIVIDENDS

The Board recommended a final dividend of RMB7 cents per share for the year ended 31 December 2010 to the shareholders on the register of members on 2 June 2011, subject to approval by the shareholders at the annual general meeting to be held on 2 June 2011.

The total dividends for the year ended 31 December 2010, which represent the final dividend, amounted to approximately RMB246 million and represented approximately 49% of the profit for the year. The payment of the final dividend will be in cash.

Such dividend for the year ended 31 December 2010, represented a payout ratio of 49%. In the opinion of the directors, such distribution is in compliance with the Articles of Association adopted by the Company on 8 October 2010, which states that dividend may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividend may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, subject to the provisions of the Memorandum of Association or Articles of Association and provided that immediately following the distribution or paying dividend the Company will be able to pay its debts as they fall due in the ordinary course of business.

RESERVES

Details of movements in reserves of the Group during the year under review are set out in Note 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2010, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB1,676.9 million. It represents the Company's share premium account of approximately RMB1,680.9 million and accumulated losses of approximately RMB4.0 million in aggregate as at 31 December 2010, which may be distributed provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

OPERATING RESULTS AND PUBLISHED PROFIT FORECAST

The Group's consolidated profit attributable to Shareholders for the year was approximately RMB502.4 million, being approximately 1.3% higher than the profit forecast as set out in the Prospectus.

CHARITABLE DONATIONS

Donations made by the Group during the year amounted to RMB0.7 million.

PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2010, the Group held property, plant and equipment of approximately RMB706.6 million. Movements in property, plant and equipment of the Group for the year ended 31 December 2010 are set out in Note 15 to the consolidated financial statements.

A surplus of approximately RMB169,334,000 arising as a result of an independent valuation of the Group's property amounted to RMB749,084,000 as at 31 August 2010 carried out by Vigers Appraisal and Consulting Ltd. has not been incorporated in the Group's consolidated financial statements for the year ended 31 December 2010. It is the Group's accounting policy to state our land and buildings held for own use and our investment properties at cost less accumulated depreciation and any impairment loss in accordance with International Financial Reporting Standards, rather than at revalued amounts. If such revaluation surplus was included in the Group's consolidated financial statements, additional annual depreciation charges of approximately RMB4.5 million would have been incurred.

SHARE CAPITAL

Details of the movements in share capital of the Company during the financial year are set out in Note 31 to the consolidated financial statements.

DIRECTORS

The directors during the financial year and as of the date of this annual report were:

Executive directors:
Mr. Zhang Lidian *(Chairman)*
Mr. Zhang Likun
Mr. Zhang Liming
Mr. Zhang Libo
Mr. Wu Xiaonan (resigned on 19 April 2011)

Non-executive directors:
Mr. Luo Yi
Mr. Zhang Chi

Independent non-executive directors:
Mr. Yu Shimao
Mr. Chen Yongquan
Mr. Samuel King On Wong

The Company has received annual confirmations of independence from each of the existing independent non-executive directors in accordance with Rule 3.13 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"). The Company considers that all the independent non-executive directors are independent in accordance with the Listing Rules.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and senior management are set out on pages 38 to 42 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed below, there was no contract of significance to which the Company, its holding company, or any of its subsidiaries was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year ended 31 December 2010.

DIRECTORS' SERVICE CONTRACTS

Each of the directors in the board has entered into a service contract with the Company for an initial fixed term of three years commencing from 1 November 2010 and will continue thereafter unless otherwise terminated in accordance with the terms of the service contract, including by not less than three months' notice in writing served by either party on the other. No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the directors and the chief executives of the Company and their respective associates had the following interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests and short positions which the directors and the chief executives of the Company are taken and deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules:

(i) Directors' interests in the shares of Zhang International Investment Ltd. ("Zhang International") (being a holding company of our Company):

Name of director	Capacity/nature of interest	Number of shares	Percentage of the issued share capital
Zhang Likun	Beneficial owner	18	18%
Zhang Liming	Beneficial owner	18	18%
Zhang Lidian	Beneficial owner	18	18%
Zhang Libo	Beneficial owner	18	18%

(ii) Director's interests in the share and underlying shares of the Company:

Name of director	Capacity/nature of interest	Number of shares	Percentage of the issued share capital of the Company
Zhang Lidian[1]	Beneficial owner	15,547,248	0.44%
Wu Xiaonan[2]	Beneficial owner	1,434,587	0.04%

Notes:

1. Zhang Lidian, an executive director, owns Pre-IPO Share Options to subscribe for 15,547,248 Shares.

2. Wu Xiaonan, an executive director who resigned on 19 April 2011, owns Pre-IPO Share Options to subscribe for 1,434,587 Shares.

Save as disclosed above, as at 31 December 2010, none of the directors or chief executive of the Company had, or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

At no time was the Company, its holding company, or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company (including their spouse and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

The Company has adopted a share option scheme on 8 October 2010 (the "Pre-IPO Share Option Scheme") for the purpose of giving its employees an opportunity to have a personal stake in the Company and helping motivate employees to optimize their performance and efficiency, and retaining its employees whose contributions are important to the long-term growth and profitability of the Group. Options to subscribe for an aggregate of 94,975,662 Shares (the "Underlying Shares") were granted to 181 participants, including 2 executive directors and 8 members of the senior management of the Group. These options represent share options originally granted by our subsidiary, 廣東雅士利集團有限公司 (Guangdong Yashili Group Company Limited*) ("Yashili (Guangdong)"), to the grantees on 1 January 2009 and 1 August 2010 in respect of the shares in the Company, which were exchanged into the Pre-IPO Share Options on 8 October 2010.

Options to subscribe for an aggregate of 73,525,056 Shares at an exercise price of RMB0.11 per Share and options to subscribe for an aggregate of 21,450,606 Shares at an exercise price RMB1.84 per Share have been granted under the Pre-IPO Share Option Scheme.

No further options were granted under the Pre-IPO Share Option Scheme on or after the 1 November 2010, the date of our Shares first commenced dealings on the Hong Kong Stock Exchange ("Listing Date"). All options granted under the Pre-IPO Share Option Scheme (the "Pre-IPO Share Options") were vested and will vest and may only be exercised in the following manner:

- one fifth of the options were vested on 1 January 2011, the date which is two months after the Listing Date (the "First Vesting Date");
- one fifth of the options shall vest on the first anniversary of the First Vesting Date;
- one fifth of the options shall vest on the second anniversary of the First Vesting Date;
- one fifth of the options shall vest on the third anniversary of the First Vesting Date;
- one fifth of the options shall vest on the fourth anniversary of the First Vesting Date; and

each option granted under the Pre-IPO Share Option Scheme is exercisable within 15 days from the date on which such option becomes vested.

A summary of the grantees who have been granted options under the Pre-IPO Share Option Scheme is set out below:

Grantee	**Number of shares to be issued upon full exercise of the Pre-IPO Share Options**	**Percentage of enlarged issue share capital of the Company after full exercise of the Pre-IPO Share Options**
Directors		
Zhang Lidian	15,547,248	0.43%
Wu Xiaonan (resigned on 19 April 2011)	1,434,587	0.04%
Other employees	77,993,827	2.17%
Total	94,975,662	2.64%

There was no exercise of any Pre-IPO Share Options granted for the year ended 31 December 2010.

Share Option Scheme

The Company has adopted the Share Option Scheme on 8 October 2010 for the purpose of motivating eligible persons to optimize their future contributions to the Group and/or reward them for their past contributions, attracting and retaining or otherwise maintaining on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The maximum number of share which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the shares in issued as at the Listing Date, that is, 350,000,000 Shares. No option may be granted to any participant of the Share Option Scheme such that the total number of shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HKD1.0 upon acceptance of the grant on or before the 28 days after the offer date. The exercise price of the options is determined by the board in its absolute discretion and shall not be less than whichever is the highest of:

(a) the nominal value of a share;

(b) the closing price of a share as stated in the Hong Kong Stock Exchange's daily quotations sheets on the offer date; and

(c) the average closing price of a share as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date, after which no further options will be granted or offered.

No options have been granted under the Share Option Scheme since its adoption up to 31 December 2010.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in "Share Option Schemes" above, at no time during the year were rights to acquire benefits by means of the acquisition of share in or debentures of the Company granted to any director of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to any director or chief executive of the Company, as at 31 December 2010, the persons or corporations (other than director or chief executive of the Company) who had interest or short positions in the shares and underlying shares of the Company or its associated corporation(s) which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Capacity/Nature of interest	Number of Shares[3]	Approximate percentage of shareholding
Zhang International[1]	Beneficial owner	1,826,808,760(L)	52.19%
CA Dairy Holdings ("Carlyle")[2]	Beneficial owner	853,631,240(L)	24.39%
Carlyle Asia Partners III L.P	Interested in a controlled corporation	853,631,240(L)	24.39%

Notes:

(1) Zhang International was held by Mr. Zhang Likun, Mr. Zhang Lihui, Mr. Zhang Liming, Mr. Zhang Lidian, Mr. Zhang Libo and Ms. She Lifang (collectively referred to as "Zhang's family") as their wholly-owned investment holding company to hold their shares in our Company.

(2) Carlyle is wholly owned by Carlyle Asia Partners III L.P.

(3) "L" denotes long positions.

Save as disclosed above, as at 31 December 2010, the directors of the Company are not aware of any other person or corporation having an interest or short position in shares and underlying shares of the Company or its associated corporation(s) which would require to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2010.

CONTINUING CONNECTED TRANSACTIONS

Connected persons

(a) 汕頭張氏投資有限公司 (Shantou Zhang's Investment Co., Ltd*) ("Zhang's Investment (Shantou)")

The entire equity interest in Zhang's Investment (Shantou) is held in equal shares by 11 individuals, six of whom are members of the controlling shareholders. Among these members of the controlling shareholders, Zhang Likun, Zhang Liming, Zhang Lidian and Zhang Libo are directors and therefore are connected persons of the Company under Rule 14A.11(1) of the Listing Rules. In addition, Zhang Lihui is a brother and She Lifang is a sister-in-law of the said members of the controlling shareholders. Given the close relationships among Zhang Likun, Zhang Liming, Zhang Lidian, Zhang Libo, Zhang Lihui and She Lifang, the directors consider it appropriate to aggregate their interests in Zhang's Investment (Shantou) in determining whether they together have a majority control over Zhang's Investment (Shantou). Since Zhang Likun, Zhang Liming, Zhang Lidian, Zhang Libo, Zhang Lihui and She Lifang together can exercise more than 50% of the voting power at general meetings of Zhang's Investment (Shantou), the directors therefore consider it appropriate to treat Zhang's Investment (Shantou) as a connected person of the Company under Rules 14A.11(4)(b)(ii) and 14A.11(4)(c)(ii) of the Listing Rules.

(b) 廣東好味佳食品有限公司 (Haoweijia Food Co., Ltd.*) ("Haoweijia Food")

Haoweijia Food is a wholly-owned subsidiary of Zhang's Investment (Shantou). Since Zhang's Investment (Shantou) is a connected person of the Company as detailed above, the directors consider it appropriate to treat Haoweijia Food as a connected person of the Company under Rules 14A.11(4)(b)(ii) and 14A.11(4)(c)(ii) of the Listing Rules.

(c) 潮安縣庵埠嘗佳紙塑製品廠 (Chaoan County Anbu Yingjia Paper and Plastic Products Factory*) ("Yingjia")

The entire equity interest in Yingjia is wholly-owned by Zhang Yuanlong. Zhang Yuanlong is a brother-in-law of Zhang Likun. Zhang Likun, being a director, will become a connected person of the Company under Rule 14A.11(1) of the Listing Rules. Since Zhang Yuanlong, being a brother-in-law of Zhang Likun, can exercise more than 50% of the voting power at general meetings of Yingjia, the directors consider it appropriate to treat Yingjia as a connected person of the Company under Rule 14A.11(4)(c)(ii) of the Listing Rules.

The continuing connected transactions

1. The Haoweijia Purchase Agreement

Haoweijia Food is a manufacturer of preserved fruit products in China. On 8 October 2010, 上海雅士利食品有限公司 (Shanghai Yashili Food Co., Ltd*) ("Yashili (Shanghai)") entered into the Haoweijia Purchase Agreement with Haoweijia Food, pursuant to which Yashili (Shanghai) will purchase preserved fruit products from Haoweijia Food from Listing Date to 31 December 2012. As one of the distributors of Haoweijia Food, Yashili (Shanghai) generates revenue by purchasing such preserved fruit products from Haoweijia and reselling them to third-party customers. Pursuant to the Haoweijia Purchase Agreement, the prices at which Yashili (Shanghai) purchases preserved fruit products from Haoweijia Food are the same as such prices at which Haoweijia Food sells its preserved fruit products to independent third parties.

For the year ended 31 December 2010, purchases from Haoweijia Food under the Haoweijia Purchase Agreement was RMB5,004,124, which was within the approved cap of RMB6,500,000 as disclosed in the prospectus of the Company.

2. **The Haoweijia Sales Agreement**

On 8 October 2010, 潮安縣必勝裝潢印務有限公司 (Chaoan Bisheng Decoration and Printing Co., Ltd*) ("Bisheng") entered into the Haoweijia Sales Agreement with Haoweijia Food, pursuant to which Bisheng will sell packaging materials to Haoweijia Food from Listing Date to 31 December 2012, renewable at the option of Bisheng for a term of three years and subject to compliance with all applicable requirements under the Listing Rules. Pursuant to the Haoweijia Sales Agreement, Bisheng sells packaging materials to Haoweijia Food at prices that are not be lower than the prices of such packaging materials Bisheng sells to independent third parties.

For the year ended 31 December 2010, sales to Haoweijia Food under the Haoweijia Sales Agreement was RMB2,571,674, which was within the approved cap of RMB3,000,000 as disclosed in the Prospectus.

3. **The Chaoan Lease**

On 8 October 2010, Bisheng entered into the Chaoan Lease with Zhang's Investment (Shantou), pursuant to which Bisheng leased an industrial complex in Chaoan County with a gross floor area of approximately 18,613 square meters (the "Chaoan Premise"), which Bisheng utilizes for production, storage and ancillary purposes, from Listing Date to 31 December 2012, renewable at the option of Bisheng for a term of three years and subject to compliance with all applicable requirements under the Listing Rules.

The rent payable by Bisheng to Zhang's Investment (Shantou) under the Chaoan Lease is RMB223,356 per month, or RMB2,680,272 per annum which is based on a rental rate of RMB12 per square meter.

For the year ended 31 December 2010, the amount of rent paid by Bisheng to Zhang's Investment (Shantou) under the Chaoan Lease was RMB2,680,272, which was within the approved cap of RMB2,680,272 as disclosed in the Prospectus.

4. **The Shanghai Lease**

On 8 October 2010, Yashili (Shanghai) entered into the Shanghai Lease with Zhang's Investment (Shantou), pursuant to which Yashili (Shanghai) leased an office in Shanghai of approximately 400 square meters (the "Shanghai Premise"), which Yashili (Shanghai) utilizes as its office in Shanghai, from Listing Date to 31 December 2012, renewable at the option of Yashili (Shanghai) for a term of three years and subject to compliance with all applicable requirements under the Listing Rules.

The rent payable by Yashili (Shanghai) to Zhang's Investment (Shantou) under the Shanghai Lease is RMB29,200 per month, or RMB350,400 per annum. For the period from January to October 2010, the rent was RMB5,000 per month.

For the year ended 31 December 2010, the amount of rent paid by Yashili (Shanghai) to Zhang's Investment (Shantou) under the Shanghai Lease was RMB108,400, which was within the approved cap of RMB350,400 as disclosed in the Prospectus.

5. **The Yingjia Purchase Agreement**

Yingjia is engaged in the manufacture of plastic products in China. On 8 October 2010, Yashili (Guangdong) entered into the Yingjia Purchase Agreement with Yingjia, pursuant to which Yashili (Guangdong) will purchase plastic spoons and plastic covers from Yingjia from Listing Date to 31 December 2012, renewable for a term of three years and subject to compliance with all applicable requirements under the Listing Rules. We utilize the plastic spoons and plastic covers we purchase from Yingjia as packaging materials for our milk powder products. Pursuant to the Yingjia Purchase Agreement, the prices at which Yashili (Guangdong) purchases plastic spoons and plastic covers from Yingjia are the same as such prices at which Yingjia sells such products to independent third parties.

For the year ended 31 December 2010, purchase from Yingjia under the Yingjia Purchase Agreement was RMB6,092,561, which was within the approved cap of RMB8,000,000 as disclosed in the Prospectus.

Other than the continuing connected transactions set out above, no contract of significance has been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2010.

The independent non-executive directors of the Company have reviewed these connected transactions and confirmed that such transactions were:

— entered into in the ordinary and usual course of business of the Group;

— conducted either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from independent third parties; and

— in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the Annual Report in accordance with Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

NON-COMPETE UNDERTAKINGS

Each of the controlling shareholders has confirmed to the Company of his/her compliance with the non-compete undertakings provided to the Company under the Non-competition Deeds (as defined in the Prospectus). The independent non-executive directors of the Company have reviewed the status of compliance and confirmed that all the undertakings under the Non-competition Deeds have been complied with by the controlling shareholders.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2010 and up to and including the date of this annual report.

MANAGEMENT CONTRACTS

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands where the Company is incorporated applicable to the Company.

EMOLUMENT POLICY

The Group's emolument policies are based on the merit, qualifications and competence of individual employees and are reviewed by the remuneration committee periodically.

The emoluments of the directors are recommended by the remuneration committee and are decided by the board, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted two share option schemes to motivate and reward its directors and eligible employees. Details of the scheme are set out in the paragraph headed "Share Option Schemes" above and Note 28 to the consolidated financial statements.

None of the directors waived any emoluments during the year.

RETIREMENT BENEFITS SCHEMES

The employees of the PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The PRC subsidiaries are required to contribute certain percentages of basic salaries of the employees to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme. The contributions are charged to the consolidated income statements as they become payable in accordance with the rules of the state-managed retirement benefits scheme.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

For the year ended 31 December 2010, the Group's total contributions to the retirement benefits schemes charged in the income statement amounted to RMB12.1 million. Details of the Group's retirement benefits scheme and the basis of calculation are set out in Note 9 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales attributable to the Group's largest and five largest customers were 0.8% and 3.5% of the Group's total sales respectively.

Aggregate purchases attributable to the Group's largest and five largest suppliers were 21.0% and 41.5% of the Group's total purchases respectively.

At no time during the year did a director, his/her associate(s) or a shareholder, which to the knowledge of the director owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest customers and suppliers.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 1 June 2011 to Thursday, 2 June 2011, both days inclusive, during which period no transfer of shares will be registered. In order to determine who are entitled to the proposed final dividend and to attend and vote at the forthcoming annual general meeting of the Company to be held on Thursday, 2 June 2011, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 31 May 2011. Subject to shareholders' approval of the proposed final dividend at the annual general meeting to be held on Thursday, 2 June 2011, will be paid to shareholders whose names appear on the register of members of the Company at the close of business on Thursday, 2 June 2011.

AUDIT COMMITTEE

The audit committee had reviewed together with the management and external auditor the accounting principles and policies adopted by the Group and the audited annual consolidated financial statements for the year ended 31 December 2010.

AUDITOR

The consolidated financial statements for the year ended 31 December 2010 have been audited by KPMG, who will retire and, being eligible, offer themselves for re-appointment. A resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company has maintained the public float of not less than 23.42% of the Company's issued shares pursuant to a waiver granted to us by the Stock Exchange for the period from the Listing Date to 31 December 2010.

BANK LOANS AND OTHER BORROWINGS

Particulars of short-term bank loans of the Group as at 31 December 2010 are set out in Note 27 to the consolidated financial statements. Other than such short-term bank loans, the Group had no other bank loans or borrowings.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the four financial years ended 31 December 2010 is set out on page 124 of this annual report.

On behalf of the Board

Zhang Lidian
Chairman

Hong Kong, 21 March 2011

INDEPENDENT AUDITOR'S REPORT

KPMG

Independent auditor's report to the shareholders of Yashili International Holdings Ltd

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Yashili International Holdings Ltd (the "Company") and its subsidiaries (together the "Group") set out on pages 57 to 123, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standard Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
21 March 2011

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Turnover	7	**2,954,370**	2,585,973
Cost of sales		**(1,272,624)**	(1,095,617)
Gross profit		**1,681,746**	1,490,356
Other revenue	8(a)	**61,234**	34,706
Other net (loss)/income		**(585)**	128
Selling and distribution expenses		**(957,468)**	(891,938)
Administrative expenses		**(182,823)**	(129,078)
Other expenses	8(b)	**(11,536)**	(14,221)
Profit from operations		**590,568**	489,953
Finance income	9(a)	**11,909**	3,385
Finance costs	9(a)	**(13,024)**	(22,051)
Net finance costs		**(1,115)**	(18,666)
Profit before taxation	9	**589,453**	471,287
Income tax expense	10	**(86,312)**	(68,874)
Profit for the year		**503,141**	402,413
Attributable to:			
Equity shareholders of the Company		**502,354**	404,665
Non-controlling interests		**787**	(2,252)
Profit for the year		**503,141**	402,413
		RMB	RMB
Earnings per share			
Basic	14(a)	**0.17**	0.14
Diluted	14(b)	**0.16**	0.14

The notes on pages 64 to 123 form part of these financial statements.

Details of dividends payable and proposed to equity shareholders of the Company attributable to the profit for the year are set out in Note 31(b).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Profit for the year	**503,141**	402,413
Other comprehensive income		
Exchange differences on translation of financial statements of overseas subsidiaries in foreign currency	**(19,480)**	(2)
Total comprehensive income for the year	**483,661**	402,411
Attributable to:		
Equity shareholders of the Company	**482,874**	404,663
Non-controlling interests	**787**	(2,252)
	483,661	402,411

The notes on pages 64 to 123 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	15	**706,550**	762,078
Intangible assets	16	**7,278**	3,429
Investment properties	17	**71,752**	44,886
Lease prepayments	18	**136,302**	113,450
Deferred tax assets	19(b)	**50,780**	67,240
Prepayment for acquisition of property, plant and equipment		**16,525**	12,364
Other non-current assets		**3,342**	3,646
		992,529	1,007,093
Current assets			
Inventories	21	**390,815**	292,008
Trade and bills receivables	22	**192,312**	79,059
Prepayments and other receivables	23	**102,000**	143,312
Amounts due from related parties	34(b)	**1,456**	21,159
Income tax recoverable	19(a)	**—**	506
Restricted bank deposits	24	**42,310**	19,695
Cash and cash equivalents	25	**2,759,273**	660,628
		3,488,166	1,216,367
Current liabilities			
Trade and other payables	26	**499,948**	643,242
Loans and borrowings	27	**158,440**	230,000
Amounts due to related parties	34(b)	**4,566**	10,127
Income tax payables	19(a)	**33,200**	3,796
Provision for sales return	29	**—**	9,023
		696,154	896,188
Net current assets		**2,792,012**	320,179
Total assets less current liabilities		**3,784,541**	1,327,272
Non-current liabilities			
Deferred income	30	**42,928**	37,045
Deferred tax liabilities	19(b)	**11,664**	—
		54,592	37,045
Net assets		**3,729,949**	1,290,227
Capital and reserves			
Capital	31	**300,685**	592,105
Reserves	31	**3,430,130**	686,821
Total equity attributable to equity shareholders of the Company		**3,730,815**	1,278,926
Non-controlling interests		**(866)**	11,301
Total equity		**3,729,949**	1,290,227

Approved and authorised for issue by the board of directors on 21 March 2011.

Zhang Lidian
Director

Zhang Liming
Director

The notes on pages 64 to 123 form part of these financial statements.

BALANCE SHEET

At 31 December 2010

	Note	2010 RMB'000
Non-current assets		
Interests in subsidiaries	20	**3,188,180**
Current assets		
Other receivables	23	**599**
Cash and cash equivalents	25	**194,801**
		195,400
Current liabilities		
Other payables	26	**13,099**
Net current assets		**182,301**
Total assets less current liabilities		**3,370,481**
Net assets		**3,370,481**
Capital and reserves		
Share capital	31	**300,685**
Reserves	31	**3,069,796**
Total equity		**3,370,481**

Approved and authorised for issue by the board of directors on 21 March 2011.

Zhang Lidian
Director

Zhang Liming
Director

The notes on pages 64 to 123 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

		Attributable to equity shareholders of the Company										
	Note	Capital RMB'000 (Note 31(c))	Share premium RMB'000 (Note 31(d))	PRC statutory reserves RMB'000 (Note 31(f))	Equity-settled share-based payment reserve RMB'000 (Note 31(g))	Other capital reserves RMB'000	Translation reserve RMB'000 (Note 31(h))	Merger reserve RMB'000 (Note 31(e))	(Accumulated loss)/ retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009		450,000	17,687	–	–	(1,388)	–	–	(494,570)	(28,271)	15,074	(13,197)
Profit for the year		–	–	–	–	–	–	–	404,665	404,665	(2,252)	402,413
Other comprehensive income		–	–	–	–	–	(2)	–	–	(2)	–	(2)
Total comprehensive income		–	–	–	–	–	(2)	–	404,665	404,663	(2,252)	402,411
Capital injection	31(c)(i)	142,105	757,421	–	–	–	–	–	–	899,526	–	899,526
Acquisition of non-controlling interests	6(d)	–	–	–	–	155	–	–	–	155	(1,521)	(1,366)
Appropriation to statutory reserves		–	–	7,981	–	–	–	–	(7,981)	–	–	–
Equity-settled share-based payment transactions		–	–	–	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**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**502,354**	**502,354**	**787**	**503,141**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**(19,480)**	**–**	**–**	**(19,480)**	**–**	**(19,480)**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**(19,480)**	**–**	**502,354**	**482,874**	**787**	**483,661**
Arising from the Reorganisation	**31(c)(ii)**	**(592,096)**	**(775,108)**	**–**	**–**	**–**	**–**	**1,367,204**	**–**	**–**	**–**	**–**
Issuance of share by share offer	**31(c)(iv)**	**49,312**	**1,932,213**	**–**	**–**	**–**	**–**	**–**	**–**	**1,981,525**	**–**	**1,981,525**
Capitalisation issue	**31(c)(iii)**	**251,364**	**(251,364)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Acquisition of non-controlling interests	**6(c)**	**–**	**–**	**–**	**–**	**(17,046)**	**–**	**–**	**–**	**(17,046)**	**(12,954)**	**(30,000)**
Equity-settled share-based payment transactions		**–**	**–**	**–**	**4,536**	**–**	**–**	**–**	**–**	**4,536**	**–**	**4,536**
Appropriation to statutory reserves		**–**	**–**	**44,775**	**–**	**–**	**–**	**–**	**(44,775)**	**–**	**–**	**–**
At 31 December 2010		**300,685**	**1,680,849**	**52,756**	**7,389**	**(18,279)**	**(19,482)**	**1,367,204**	**359,693**	**3,730,815**	**(866)**	**3,729,949**

The notes on pages 64 to 123 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Profit before taxation		**589,453**	471,287
Adjustments for:			
— Depreciation and amortisation		**75,438**	69,567
— Net loss/(gain) on disposal of property, plant and equipment		**585**	(128)
— Impairment loss for trade and other receivables		**936**	2
— Write-down of inventories		**1,137**	251
— Equity-settled share-based transactions		**4,536**	2,853
— Interest income		**(11,447)**	(3,362)
— Interest expense		**13,024**	22,035
— Net realised and unrealised gain on financial assets carried at fair value		**(323)**	(23)
Operating profit before changes in working capital		**673,339**	562,482
Change in inventories		**(14,197)**	76,807
Change in trade and bills receivables		**(114,423)**	(29,340)
Change in prepayment and other receivables		**47,028**	(57,993)
Change in restricted bank deposits		**1,898**	(12,825)
Change in trade and other payables		**(259,166)**	(644,997)
Change in provision for sales return		**(9,023)**	(37,642)
Change in deferred income		**5,883**	37,045
Change in amounts due from related parties		**17,703**	(1,158)
Change in amounts due to related parties		**(5,561)**	3,698
Cash generated from/(used in) operations		**343,481**	(103,923)
Income tax paid		**(30,455)**	(1,528)
Net cash generated from/(used in) operating activities		**313,026**	(105,451)
Investing activities			
Interest received		**11,447**	3,362
Proceeds from disposal of property, plant and equipment		**3,327**	1,001
Proceeds from sales of other investments		**30,255**	15,023
Proceeds from repayment of advances to the Controlling Shareholders		**2,000**	42,000
Acquisition of property, plant and equipment		**(52,721)**	(93,626)
Acquisition of intangible assets		**(1,795)**	(1,110)
Acquisition of lease prepayments		**(25,337)**	(31,500)
Acquisition of other non-current assets		**(453)**	(3,670)
Acquisition of other investments		**(30,000)**	(15,000)
Acquisition of subsidiaries, net of cash acquired	6	**12,299**	(1,825)
Advances to the Controlling Shareholders		**—**	(44,000)
Net cash used in investing activities		**(50,978)**	(129,345)

For the year ended 31 December 2010

	Note	**2010 RMB'000**	2009 RMB'000
Financing activities			
Net proceeds from issuance of shares		**1,965,829**	–
Capital contribution from equity holders		**–**	899,526
Proceeds from loans and borrowings		**173,089**	338,000
Change in restricted bank deposits in relation to bank loans		**90,161**	–
Acquisition of non-controlling interests		**(30,658)**	(683)
Repayments of loans and borrowings		**(345,184)**	(475,340)
Advances from the Controlling Shareholders		**–**	193,000
Repayments of advances from the Controlling Shareholders		**–**	(283,000)
Interest paid		**(12,856)**	(21,915)
Dividends paid		**–**	(59,032)
Net cash generated from financing activities		**1,840,381**	590,556
Net increase in cash and cash equivalents		**2,102,429**	355,760
Cash and cash equivalents at 1 January		**660,628**	304,868
Effect of foreign exchange rate changes		**(3,784)**	–
Cash and cash equivalents at 31 December		**2,759,273**	660,628

The notes on pages 64 to 123 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

Yashili International Holdings Ltd (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. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

Pursuant to a reorganisation of the Company and its subsidiaries (together referred to as the "Group") to rationalise the group structure in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Reorganisation"), the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 20 October 2010 (the "Prospectus"). The Company's shares were listed on the Stock Exchange on 1 November 2010.

Since all entities which took part in the Reorganisation were under common control of a group of ultimate equity shareholders, the Group is regarded as a continuing entity resulting from the reorganisation of entities under common control. These financial statements have been prepared on the basis that the current group structure had been in existence at the beginning of the earliest period presented. Accordingly, the consolidated results of the Group for the years ended 31 December 2009 and 2010 include the results of the Company and its subsidiaries with effect from 1 January 2009 or, if later, since their respective dates of incorporation/acquisition as if the current group structure had been in existence throughout the two years presented. The consolidated balance sheets as at 31 December 2009 and 2010 have been prepared as if the current group structure had been in existence as at the respective dates. All material intra-group transactions and balances have been eliminated on consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and interpretations issued by the International Accounting Standards Board ("IASB"), and disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption of the current accounting period of the Group and the Company. Note 4 provides information on adoption of new accounting policies to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of measurement

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousands except per share data ("presentation currency"), which is the reporting currency of the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial assets at fair value through profit or loss are stated at fair value as explained in Note 2(f). The method used to measure fair value is set out in Note 3.

(c) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and 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 judgments 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 37.

(d) Basis of consolidation

(i) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group 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.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Basis of consolidation (continued)

(i) Subsidiaries and non-controlling interests (continued)

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from total equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (Note 2(l)(ii)).

(ii) Business combination

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 consolidation are measured initially at their fair values at the acquisition date. Transaction costs in connection with a business consolidation are expensed as incurred.

(e) Foreign currency

(i) Functional 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Foreign currency (continued)

(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 consolidated 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.

(f) 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.

Receivables

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 receivables are measured at amortised cost using the effective interest method, less any impairment losses (Note 2(l)(i)).

Receivables comprise trade receivables and prepayments and other receivables.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

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 consolidated 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 years ended 31 December 2009 and 2010, the Group's derivative has not been 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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 2(l)(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 2(l)(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 property, the property is reclassified as investment property.

(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 based on the cost of an asset less its residual value. 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. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) 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.

(i) 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 2(l)(ii)).

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

(ii) Depreciation

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

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

(j) 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 2(l)(ii)). Amortisation is recognised in profit or loss on a straight-line basis over the respective period of the rights.

(k) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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).

(n) Provisions and contingent liabilities

Provisions are 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) *Turnover*

Revenue recognition

(i) *Sales of goods*

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.

(p) *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.

(q) *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.

(r) *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.

(s) *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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) *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 2(l)(ii)). Other development expenditures are recognised as expenses in the period in which they are incurred.

(u) *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.

(v) *Related parties*

For the purposes of these financial statements, 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;

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Related parties (continued)

(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.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the these financial statements, 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.

3. 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.

3. DETERMINATION OF FAIR VALUE (continued)

(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.

4. ADOPTION OF NEW ACCOUNTING POLICIES

The IASB has issued two revised IFRSs, a number of amendments to IFRSs and two new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— IFRS 3 (revised 2008), *Business combinations*

— Amendments to IAS 27, *Consolidated and separate financial statements*

The Group has not applied any new standard or amendments that are not yet effective for the current accounting period.

The above revised standard and amendments have had no material impact on the Group's financial statements as the standard and amendments were consistent with policies already adopted by the Group.

5. SEGMENT REPORTING

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 of 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 nutrition products: this segment includes development, manufacture and sale of milk powder for adults and teenagers, soymilk powder, 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, net finance costs, expenses other than certain 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 these financial statements.

(a) *Information about reportable segments*

Year ended 31 December 2010

	Yashily pediatric milk formula products RMB'000	Scient pediatric milk formula products RMB'000	Nutrition products RMB'000	Others RMB'000	Total RMB'000
Revenue from external customers	1,816,133	624,344	466,719	47,174	2,954,370
Inter-segment revenue	—	—	—	118,893	118,893
Reportable segment revenue	1,816,133	624,344	466,719	166,067	3,073,263
Reportable segment profit	636,482	56,393	132,953	5,368	831,196
Segment depreciation and amortisation	25,462	20,691	7,032	2,474	55,659

5. SEGMENT REPORTING (continued)

(a) *Information about reportable segments (continued)*

Year ended 31 December 2009

	Yashily pediatric milk formula products RMB'000	Scient pediatric milk formula products RMB'000	Nutrition products RMB'000	Others RMB'000	Total 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

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

	2010 RMB'000	2009 RMB'000
Total reportable segment revenue	**3,073,263**	2,685,750
Elimination of inter-segment revenue	**(118,893)**	(99,777)
Turnover	**2,954,370**	2,585,973
Reportable segment profit	**831,196**	693,425
Other revenue and other net income/(loss)	**60,649**	34,834
Unallocated amounts:		
Selling and distribution expenses	**(106,918)**	(95,007)
Administrative expenses	**(182,823)**	(129,078)
Net finance costs	**(1,115)**	(18,666)
Other expenses	**(11,536)**	(14,221)
Profit before taxation	**589,453**	471,287

5. SEGMENT REPORTING (continued)

(c) *Geographical information*

The Group's revenue is solely from domestic sales during the year. No export sales were recorded in the years ended 31 December 2009 and 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.

	2010 **RMB'000**	2009 RMB'000
Yashily pediatric milk formula products		
Revenue derived from		
— First-tier cities	**306,715**	304,060
— Second-tier cities	**1,005,652**	865,763
— Third-tier cities and others	**503,766**	370,597
Total	**1,816,133**	1,540,420
Scient pediatric milk formula products		
Revenue derived from		
— First-tier cities	**90,879**	95,010
— Second-tier cities	**465,895**	379,077
— Third-tier cities and others	**67,570**	47,196
Total	**624,344**	521,283

6. ACQUISITIONS OF SUBSIDIARY AND NON-CONTROLLING INTERESTS

(a) *Acquisition of a subsidiary in 2010*

On 25 June 2010, the Group obtained the control of Chaoan Victory Trading Limited ("Victory Trading") by acquiring its entire equity interest for cash of 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 the 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 consolidated revenue would have been the same while and the Group's consolidated profit for the year ended 31 December 2010 would have been RMB510,480,000.

The following summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date and net cashflow arising from the acquisition:

	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	(116,210)
Income tax payables (Note 19(a))	(2,254)
Total net acquired assets	14,200
Considerations transferred, satisfied in cash	(14,200)
Cash and cash equivalents acquired	26,499
Net cash inflow	12,299

(b) *Acquisition of a subsidiary in 2009*

On 31 July 2009, the Group obtained the control of Yashili (Shanghai) Food Co., Ltd. ("Yashili (Shanghai)") by acquiring entire equity interests for cash of 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 operation 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 elimination 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 consolidated revenue for the year ended 31 December 2009 would have been RMB2,603,074,000, after eliminating the intra-group transactions, and the Group's consolidated profit for the year ended 31 December 2009 would have been RMB402,366,000.

6. ACQUISITIONS OF SUBSIDIARY AND NON-CONTROLLING INTERESTS (continued)

(b) *Acquisition of a subsidiary in 2009 (continued)*

The following summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date and net cashflow arising from the acquisition:

	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
Considerations transferred, satisfied in cash	(2,000)
Cash and cash equivalents acquired	175
Net cash outflow	(1,825)

(c) *Acquisition of non-controlling interests in 2010*

On 6 September 2010 the Group acquired an additional 30% equity interest in Yashili (Zhengzhou) Nourishment Co., Ltd ("Yashili (Zhengzhou)") for RMB30,000,000 in cash, which was determined by arm's length negotiation with reference to the carrying amount of Yashili (Zhengzhou)'s net assets, increasing its equity interest in Yashili (Zhengzhou) from 70% to 100%. The carrying amount of Yashili (Zhengzhou)'s net assets in the consolidated financial statements on the date of the acquisition was RMB43,178,000. The Group recognised a decrease in non-controlling interest of RMB12,954,000 and a decrease in other capital reserve of RMB17,046,000.

The following table summarises the effect of the Group's share of equity interest in Yashili (Zhengzhou) during the year ended 31 December 2010:

	RMB'000
The Group's share of equity interest at 1 January 2010	30,841
Effect of increase in the Group's share of equity interest	12,954
Share of comprehensive income	3,494
The Group's share of equity interest at 31 December 2010	47,289

6. ACQUISITIONS OF SUBSIDIARY AND NON-CONTROLLING INTERESTS (continued)

(d) Acquisition of non-controlling interests in 2009

On 1 July 2009 the Group acquired an additional 20% equity interest in Scient (Guangzhou) Baby Nourishment Co., Ltd. ("Scient (Guangzhou)") for US$200,000 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 consolidated 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 year ended 31 December 2009.

	RMB'000
The Group's share of equity interest at 1 January 2009	3,841
Effect of increase in the Group's share of equity interest	1,521
Share of comprehensive income	(41,770)
The Group's share of equity interest at 31 December 2009	(36,408)

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 turnover during the year.

8. OTHER REVENUE AND OTHER EXPENSES

(a) Other revenue

	2010 **RMB'000**	2009 RMB'000
Government grants (i)	**27,222**	19,640
Compensation income (ii)	**4,301**	8,892
Write-off of trade payables (iii)	**1,495**	3,651
Reversal of input VAT transfer-out (iv)	**22,808**	—
Rental income	**4,206**	1,483
Others	**1,202**	1,040
	61,234	34,706

8. OTHER REVENUE AND OTHER EXPENSES (continued)

(a) Other revenue (continued)

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

	2010 RMB'000	2009 RMB'000
Compensation for expenses incurred	**14,797**	12,834
Compensation for acquisition of assets (Note 30)	**5,117**	1,855
Taxes refund	**7,308**	4,951
	27,222	19,640

(ii) Compensation income mainly represented forfeiture received from distributor customers for cross territorial sales that breached the terms of distribution agreements during the year. 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) Written-off trade payables were mainly due to shortage of quantity and damage during transportation. During the year ended 31 December 2009, the amounts included trade payables amounting to RMB2,274,000 due to a domestic supplier which 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.

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

(b) Other expenses

	2010 RMB'000	2009 RMB'000
Loss on disposal of inventory (i)	**8,009**	9,030
Others	**3,527**	5,191
	11,536	14,221

(i) Loss on disposal of inventory mainly represented losses arising from stocktake loss, disposal of dampened or deteriorated inventory and disposal of unused packaging materials.

9. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) *Finance (income)/costs*

	2010 RMB'000	2009 RMB'000
Finance income		
Interest income	**(11,447)**	(3,362)
Net foreign exchange gain	**(139)**	–
Net realised and unrealised gains on trading assets	**(255)**	(23)
Net unrealised gain on forward contracts	**(68)**	–
Sub-total	**(11,909)**	(3,385)
Finance costs		
Interest expense on borrowings wholly repayable within five years	**13,024**	23,848
Less: Capitalised interest expense (Note 15)	**–**	(1,813)
Interest expense	**13,024**	22,035
Net foreign exchange loss	**–**	16
Sub-total	**13,024**	22,051
Net finance costs	**1,115**	18,666

(b) *Staff costs*

	2010 RMB'000	2009 RMB'000
Salaries, wages and other benefits	**181,280**	156,611
Contributions to defined contribution retirement schemes	**12,106**	9,599
Equity-settled share based payment expenses (Note 28)	**4,536**	2,853
	197,922	169,063

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

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries of the Company have participated 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.

9. PROFIT BEFORE TAXATION (continued)

(c) Other items:

	2010 **RMB'000**	2009 RMB'000
Cost of inventories (i) (Note 21)	**1,426,388**	1,266,493
Depreciation:		
— Property, plant and equipment (i) (Note 15)	**68,881**	65,218
— Investment properties (Note 17)	**1,271**	301
Amortisation:		
— Lease prepayments (Note 18)	**2,485**	2,810
— Intangible assets (Note 16)	**2,044**	900
— Other non-current assets	**757**	338
Operating lease charges		
— Hire of plant, machinery and properties	**12,074**	13,772
Auditors' remuneration		
— Audit services	**2,000**	550
Research and development costs	**1,445**	950
Net loss/(gain) on disposal of plant and equipment	**585**	(128)
Impairment loss/(write-back)		
— on trade receivables (Note 22)	**1,170**	168
— on other receivables	**(234)**	(166)
Increase in provision for sales return (Note 29)	**—**	1,923
Rentals receivable from investment properties less direct outgoings (ii)	**(4,115)**	(1,062)

(i) Cost of inventories includes RMB77,745,000 for the year ended 31 December 2010 relating to staff costs and depreciation (2009: RMB77,577,000), which amounts are also included in the respective total amounts disclosed above or in Note 9(b) for each of these types of expenses.

(ii) Direct outgoing of investment properties are RMB91,000 for the year ended 31 December 2010 (2009: RMB421,000).

10. INCOME TAX EXPENSE

(a) Income tax expense in the consolidated statement of comprehensive income represents:

	2010 RMB'000	2009 RMB'000
Current tax — PRC income tax		
Provision for the year	**58,126**	5,275
Over provision in respect of prior years	**(15)**	—
Deferred tax — PRC income tax	**28,201**	63,599
Total income tax expense	**86,312**	68,874

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2010 RMB'000	2009 RMB'000
Profit before taxation	**589,453**	471,287
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned (i) to (iii)	**147,363**	117,822
Over provision in prior year	**(15)**	—
Effect of non-deductible expenses	**3,260**	2,654
Effect of preferential tax rates on current tax payable (iii)	**(64,666)**	—
Effect of tax rate differential (iii)	**(11,018)**	(62,502)
Effect of unrecognised temporary differences and tax losses	**1,181**	10,900
Effect of utilisation of tax losses not recognised in prior years	**(1,218)**	—
Effect of withholding income tax (iv)	**11,664**	—
Effect of non-taxable income	**(239)**	—
Income tax expense	**86,312**	68,874

(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 2009 and 2010.

10. INCOME TAX EXPENSE (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates: (continued)

(iii) 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"), the statutory income tax rate of the Group's PRC subsidiaries is 25% from 1 January 2008. There are transitional preferential tax treatments available under the New Tax Law and its relevant regulations.

Guangdong Yashili Group Company Limited ("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 subject to income tax at 12.5% in 2009 and 2010 and 25% from 2011 onwards, respectively.

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, the transitional income tax rates are 20%, 22%, 24% and 25% for 2009, 2010, 2011 and 2012 onwards, respectively ("transitional rates").

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) started its tax holiday in 2008 and is exempted from income tax for 2009 and subject to income tax at 11%, 12%, 12.5% and 25% for 2010, 2011, 2012 and from 2013 onwards, respectively.

(iv) 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 "beneficiary owner" and holds 25% equity interests or more of a PRC enterprises is entitled to a reduced withholding tax rate of 5%. On this basis, the Group has made provision of withholding income tax on the distributable profits generated by PRC subsidiaries.

11 DIRECTORS' REMUNERATION

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

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement schemes contributions RMB'000	Equity-settled share-based payment expenses RMB'000	2010 Total RMB'000
Executive directors:						
— Mr. Zhang Likun	–	360	240	8	–	608
— Mr. Zhang Liming	–	264	136	8	–	408
— Mr. Zhang Lidian	–	264	236	8	610	1,118
— Mr. Zhang Libo	–	264	136	8	–	408
—- Mr. Wu Xiaonan	–	75	330	8	56	469
Sub-total	–	1,227	1,078	40	666	3,011
Non-executive directors:						
— Mr. Luo Yi	–	–	–	–	–	–
— Mr. Zhang Chi	–	–	–	–	–	–
Sub-total	–	–	–	–	–	–
Independent non-executive directors:						
— Mr. Chen Yongquan	65	–	–	–	–	65
— Mr. Yu Shimao	65	–	–	–	–	65
— Mr. Samuel King On Wong	59	–	–	–	–	59
Sub-total	189	–	–	–	–	189
Total	189	1,227	1,078	40	666	3,200

11. DIRECTORS' REMUNERATION (continued)

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

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2009: four) are directors whose emoluments are disclosed in Note 11. The aggregate of the emoluments in respect of the other two (2009: one) individuals are as follows:

	2010 **RMB'000**	2009 RMB'000
Salaries and other emoluments	**937**	240
Discretionary bonuses	**314**	60
Retirement schemes contributions	**–**	4
	1,251	304

The emoluments of the two (2009: one) individuals with the highest emoluments are within the band of HKD Nil – 1,000,000.

13. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB3,975,000 which has been dealt with in the financial statements of the Company.

Details of dividends payable to equity shareholders of the Company are set out in Note 31(b).

14. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of RMB502,354,000 (2009: RMB404,665,000) and the weighted average of 3,021,928,767 ordinary shares (2009: 2,926,000,000) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2010 No. of shares	2009 No. of shares
Share issued upon incorporation (Note 31(c)(ii))	**1**	1
Share issued upon Reorganisation (Note 31(c)(ii))	**99,999**	99,999
Capitalisation issue (Note 31(c)(iii))	**2,925,900,000**	2,925,900,000
Effect of issuance of shares by share offer (Note 31(c)(iv))	**95,928,767**	—
Weighted average number of ordinary shares during the year ended 31 December	**3,021,928,767**	2,926,000,000

The weighted average number of shares in issue during the year ended 31 December 2009 represents the 2,926,000,000 shares in issue before the listing of shares on the Stock Exchange, as if such shares had been outstanding during 2009.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the consolidated profit attributable to equity shareholders of the Company of RMB502,354,000 (2009: RMB404,665,000) and the weighted average of 3,093,138,808 (2009: 2,982,897,338) ordinary shares (diluted), calculated as follows:

Weighted average number of ordinary shares

	2010 No. of shares	2009 No. of shares
Weighted average number of ordinary shares during the year ended 31 December before dilution	**3,021,928,767**	2,926,000,000
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (Note 28)	**71,210,041**	56,897,338
Weighted average number of ordinary shares during the year ended 31 December after dilution	**3,093,138,808**	2,982,897,338

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Construction in progress RMB'000	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office and other equipment RMB'000	Total RMB'000
Cost:						
At 1 January 2009	131,615	303,757	319,058	56,362	51,733	862,525
Additions	90,274	2,621	5,200	4,356	4,525	106,976
Transfer from/(out) 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 (Note 17)	—	(32,092)	—	—	—	(32,092)
At 31 December 2009	54,307	427,111	326,635	45,711	52,520	906,284
At 1 January 2010	**54,307**	**427,111**	**326,635**	**45,711**	**52,520**	**906,284**
Additions	**27,226**	**11,534**	**4,959**	**1,590**	**3,471**	**48,780**
Transfer from/(out) construction in progress	**(18,948)**	**6,747**	**11,628**	**—**	**573**	**—**
Transfer to intangible assets	**(4,098)**	**—**	**—**	**—**	**—**	**(4,098)**
Disposals	**—**	**—**	**(4,167)**	**(711)**	**(2,985)**	**(7,863)**
Transfer to investment properties (Note 17)	**—**	**(29,568)**	**—**	**—**	**—**	**(29,568)**
Reclassification	**—**	**(4,735)**	**(3,138)**	**3,700**	**4,173**	**—**
Addition from business combination (Note 6(a))	**—**	**716**	**—**	**—**	**4**	**720**
At 31 December 2010	**58,487**	**411,805**	**335,917**	**50,290**	**57,756**	**914,255**
Accumulated Depreciation:						
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 (Note 17)	—	1,157	—	—	—	1,157
At 31 December 2009	—	(33,487)	(70,982)	(21,425)	(18,312)	(144,206)
At 1 January 2010	**—**	**(33,487)**	**(70,982)**	**(21,425)**	**(18,312)**	**(144,206)**
Charge for the year	**—**	**(18,246)**	**(33,206)**	**(7,089)**	**(10,340)**	**(68,881)**
Written back on disposal	**—**	**—**	**1,664**	**560**	**1,727**	**3,951**
Transfer to investment properties (Note 17)	**—**	**1,431**	**—**	**—**	**—**	**1,431**
Reclassification	**—**	**842**	**273**	**(1,805)**	**690**	**—**
At 31 December 2010	**—**	**(49,460)**	**(102,251)**	**(29,759)**	**(26,235)**	**(207,705)**
Net book value:						
At 31 December 2010	**58,487**	**362,345**	**233,666**	**20,531**	**31,521**	**706,550**
At 31 December 2009	54,307	393,624	255,653	24,286	34,208	762,078

15. PROPERTY, PLANT AND EQUIPMENT (continued)

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%. No interest on borrowings was capitalised for the year ended 31 December 2010.

As of 31 December 2010, the building ownership certificate of Yashili (Guangdong) and Yashili (Shanxi)'s plant and buildings with carrying amount totalling RMB28,214,000 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 27) and advances from local governments (Note 26(iii)) are set out as below:

	The Group	
	2010	2009
	RMB'000	RMB'000
Carrying amount of pledged property, plant and equipment	**108,586**	195,495

16. INTANGIBLE ASSETS

	The Group	
	2010	2009
	RMB'000	RMB'000
Cost:		
As at the beginning of the year	**5,030**	3,921
Addition during the year	**1,795**	1,109
Transfer from construction in progress	**4,098**	—
As at the end of the year	**10,923**	5,030
Accumulated amortisation:		
As at the beginning of the year	**(1,601)**	(701)
Charge for the year	**(2,044)**	(900)
As at the end of the year	**(3,645)**	(1,601)
Carrying amount:		
As at the end of the year	**7,278**	3,429

The intangible assets represented purchased and customised software held by the Group. Amortisation of the intangible assets is included in "Administrative expenses".

17. INVESTMENT PROPERTIES

	The Group	
	2010	2009
	RMB'000	RMB'000
Cost:		
As at the beginning of the year	**46,578**	14,022
Addition during the year	**–**	464
Transfer from plant and buildings (Note 15)	**29,568**	32,092
As at the end of the year	**76,146**	46,578
Accumulated depreciation:		
As at the beginning of the year	**(1,692)**	(234)
Charge for the year	**(1,271)**	(301)
Transfer from plant and buildings (Note 15)	**(1,431)**	(1,157)
As at the end of the year	**(4,394)**	(1,692)
Carrying amount:		
As at the end of the year	**71,752**	44,886

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 RMB118,147,000 as at 31 December 2010 (2009: RMB69,328,000).

The carrying value of investment properties comprises properties:

	The Group	
	2010	2009
	RMB'000	RMB'000
In the PRC under a medium-term lease	**70,093**	43,132
In the United States of America on a self-owned land	**1,659**	1,754
Total	**71,752**	44,886

As at 31 December 2010, investment properties with carrying amounts totalling RMB70,093,000 were pledged for the Group's bank loans (2009: RMB43,132,000).

18. LEASE PREPAYMENTS

	The Group	
	2010	2009
	RMB'000	RMB'000
Cost:		
As at the beginning of the year	**121,123**	121,123
Addition during the year	**25,337**	—
As at the end of the year	**146,460**	121,123
Accumulated amortisation:		
As at the beginning of the year	**(7,673)**	(4,863)
Charge for the year	**(2,485)**	(2,810)
As at the end of the year	**(10,158)**	(7,673)
Carrying amount:		
As at the end of the year	**136,302**	113,450

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.

As at 31 December 2010, the certificate of Yashili (Zhengzhou)'s land use right with carrying amount of RMB23,797,000 has not yet been issued, the directors of the Company do not foresee any substantial obstacle in obtaining the land use right certificate.

The carrying amount of lease prepayments pledged to secure the Group's certain bank loans as at 31 December 2010 are set out as below:

	The Group	
	2010	2009
	RMB'000	RMB'000
Carrying amount of pledged lease prepayments	**38,418**	42,258

19. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2010 RMB'000	2009 RMB'000
Provision for PRC income tax for the year	**58,126**	5,275
Addition from business combination (Note 6(a))	**2,254**	–
PRC income tax paid	**(27,180)**	(1,985)
	33,200	3,290
Represented by:		
Income tax payables	**33,200**	3,796
Income tax recoverable	**–**	(506)

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Inventory provision RMB'000	Deferred income RMB'000	Tax losses RMB'000	Expense accruals RMB'000	Provision For sales return RMB'000	Loss arising From the melamine incident RMB'000	Arising from undistributed earnings of PRC subsidiaries RMB'000	Others RMB'000	Total RMB'000
Deferred tax arising from:									
At 1 January 2009	73,931	–	3,694	7,414	7,406	35,904	–	2,490	130,839
Credited to profit or loss	(69,540)	5,175	29,723	11,495	(5,715)	(34,982)	–	245	(63,599)
At 31 December 2009	4,391	5,175	33,417	18,909	1,691	922	–	2,735	67,240
At 1 January 2010	**4,391**	**5,175**	**33,417**	**18,909**	**1,691**	**922**	**–**	**2,735**	**67,240**
Credited to profit or loss	**(4,349)**	**1,438**	**(24,732)**	**11,418**	**(1,691)**	**(922)**	**(11,664)**	**2,301**	**(28,201)**
Addition from business combination (Note 6(a))	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**77**	**77**
At 31 December 2010	**42**	**6,613**	**8,685**	**30,327**	**–**	**–**	**(11,664)**	**5,113**	**39,116**

19. INCOME TAX IN THE BALANCE SHEET (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

The Group (continued)

	2010 RMB'000	2009 RMB'000
Represented by:		
Deferred tax assets	50,780	67,240
Deferred tax liabilities	(11,664)	—

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(u) 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.

	2010 RMB'000	2009 RMB'000
Temporary difference	57,524	54,186
Tax losses		
— due in 2012	—	39
— due in 2013	—	2,767
— due in 2014	151,300	153,367
— due in 2015 and afterwards	1,385	—
Total	210,209	210,359

(d) Deferred tax liabilities not recognised

At 31 December 2010, the undistributed profits of some of the Group's PRC subsidiaries amounted to RMB527,775,000 (2009: RMB120,604,000). No deferred tax liabilities were provided in respect of the tax that would be payable on the distribution of Yashili (Guangdong)'s retained profits recorded as of 30 June 2010 as the Group controls the dividend policy of these subsidiaries and it has been determined that these retained profits will not be distributed in the foreseeable future.

20. INTERESTS IN SUBSIDIARIES

The Company

	2010 RMB'000
Unlisted shares, at cost	7,389
Amounts due from subsidiaries	3,180,791
	3,188,180

The balances with subsidiaries are unsecured, interest-free, and repayable on demand. These balances are expected to be recovered after more than one year.

20. INTERESTS IN SUBSIDIARIES (continued)

At the date of this report, the Company has direct or indirect interests in the following subsidiaries. The class of shares held is ordinary. The particular of those subsidiaries are set out below:

Name of company	Place of incorporation/ establishment	Particular of registered/ issued capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal Activities
Yashili International Ltd. ("Yashili (BVI)")	British Virgin Islands "BVI"	USD1	100%	100%	–	Investment Holding
Yashili International Group Limited ("Yashili (HK)")	Hong Kong	HKD1	100%	–	100%	Investment Holding
Yashili Hong Kong International Trading Co., Limited ("Yashili Trading")	Hong Kong	HKD1	100%	–	100%	Import and export of dairy products and related materials
Guangdong Yashili Group Company Limited ("Yashili (Guangdong)") (廣東雅士利集團有限公司) (i) & (ii)	PRC	RMB592,105,300	100%	–	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) (ii)	PRC	RMB155,000,000	95%	–	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) (ii)	PRC	RMB20,080,000	100%	–	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) (ii)	PRC	RMB50,000,000	100%	–	100%	Production and sales of dairy products
Shanxi Yashili Dairy Co., Ltd. ("Yashili (Shanxi)") (山西雅士利乳業有限公司) (ii)	PRC	RMB300,000,000	100%	–	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) (ii)	PRC	RMB10,800,000	100%	–	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) (ii)	PRC	RMB5,000,000	100%	–	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) (ii)	PRC	RMB2,000,000	100%	–	100%	Sales of food products
Scient International (USA), Inc. ("Scient (USA)") (美國施恩國際有限公司)	United States of America	USD620,000	100%	–	100%	Investment holding
Chaoan Victory Trading Limited ("Victory Trading") (潮安縣利成貿易有限公司) (ii)	PRC	RMB5,000,000	100%	–	100%	Import and export of dairy products and related materials

(i) The company is wholly foreign-owned enterprise established in the PRC.

(ii) These companies are limited liability companies established in the PRC. The official names of these companies are in Chinese and the English translation of the names is for reference only.

21. INVENTORIES

	The Group	
	2010	2009
	RMB'000	RMB'000
Raw materials	**220,074**	166,714
Finished goods	**95,935**	37,214
Work in progress	**40,342**	46,365
Packing materials	**24,516**	33,287
Low value consumables	**9,948**	8,428
	390,815	292,008

Amounts of inventories recognised as expenses and included in the income statement are analysed as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Carrying amount of inventories recognised as		
— cost of sales	**1,272,624**	1,095,617
— selling and distribution expenses (i)	**144,618**	161,129
Write down of inventories	**1,137**	251
Disposal of inventories	**8,009**	9,496
	1,426,388	1,266,493

(i) 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

	The Group	
	2010	2009
	RMB'000	RMB'000
Bills receivables	**1,703**	887
Trade receivables	**192,172**	79,489
Less: allowance for doubtful debts	**(1,563)**	(1,317)
	192,312	79,059

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

	The Group	
	2010	2009
	RMB'000	RMB'000
Current	**186,600**	67,338
Less than 3 months past due	**4,115**	3,231
More than 3 months but less than 6 months past due	**174**	138
More than 6 months but less than 12 months past due	**244**	1,231
More than 12 months but less than 24 months past due	**1,179**	7,121
	5,712	11,721
	192,312	79,059

The Group's credit policy is set out in Note 32(a).

The movement in the allowance for doubtful debts during the year is as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
At 1 January	**1,317**	4,905
Impairment loss recognised	**1,170**	168
Written off	**(924)**	(3,756)
At 31 December	**1,563**	1,317

22. TRADE AND BILLS RECEIVABLES (continued)

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

	The Group	
	2010 **RMB'000**	2009 RMB'000
Current	**186,600**	67,338
Less than 3 months past due	**4,000**	3,039
More than 3 months but less than 6 months past due	**174**	113
More than 6 months but less than 12 months past due	**244**	1,214
More than 12 months but less than 24 months past due	**1,179**	6,808
Amount past due	**5,597**	11,174
	192,197	78,512

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

23. PREPAYMENTS AND OTHER RECEIVABLES

	The Group		The Company
	2010 **RMB'000**	2009 RMB'000	**2010** **RMB'000**
Prepaid advertising expenses	**31,923**	15,888	**–**
Prepayments for purchase of raw materials	**6,781**	59,607	**–**
Advances to sales offices	**1,007**	4,471	**–**
VAT recoverable	**49,468**	39,285	**–**
Others	**12,821**	24,061	**599**
	102,000	143,312	**599**

24. RESTRICTED BANK DEPOSITS

	The Group	
	2010	2009
	RMB'000	RMB'000
Pledged for		
—- issuing bank acceptances	**11,124**	8,989
— issuing letters of credit	**10,860**	—-
— bank loans	**10,920**	—-
Frozen deposits (i)	**9,406**	10,706
	42,310	19,695

(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. 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 2010.

25 CASH AND CASH EQUIVALENTS

	The Group		The Company
	2010	2009	**2010**
	RMB'000	RMB'000	**RMB'000**
Cash on hand	**818**	3,116	**—**
Cash at bank	**2,758,455**	657,512	**194,801**
	2,759,273	660,628	**194,801**

26 TRADE AND OTHER PAYABLES

	The Group		The Company
	2010	2009	**2010**
	RMB'000	RMB'000	**RMB'000**
Trade payables (i)	**231,421**	265,836	**–**
Bills payables (ii) (Note 32(d))	**11,124**	8,988	**–**
Advances from customers	**71,651**	154,561	**–**
Accrued payroll	**37,936**	26,360	**–**
Other taxes payable	**38,870**	62,961	**–**
Advances from local government (iii)	**30,000**	50,000	**–**
Pledged deposits from customers	**30,205**	27,115	**–**
Amount due to a subsidiary	**–**	–	**10,788**
Other payables and accruals (iv)	**48,741**	47,421	**2,311**
	499,948	643,242	**13,099**

(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:

	The Group	
	2010	2009
	RMB'000	RMB'000
Due within 1 month or on demand	**66,940**	86,704
Due after 1 month but within 3 months	**147,153**	150,878
Due after 3 months but within 6 months	**17,328**	28,254
	231,421	265,836

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

(iii) At 31 December 2010, an advance of RMB30,000,000 was from the People's Government of Ying County (2009: RMB30,000,000), 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. There were no fixed repayment terms for the advances as at 31 December 2010.

Another advance of RMB20,000,000 as at 31 December 2009 was from the People's Government of Chao'an County which was interest-free and did not require any guarantee or security. The advance was repaid in 2010.

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

27. LOANS AND BORROWINGS

At 31 December, the bank loans were repayable as follows:

	The Group	
	2010 **RMB'000**	2009 RMB'000
Within 1 year or on demand	**158,440**	230,000

Details of the loans and borrowings are as follows:

	The Group	
	2010 **RMB'000**	2009 RMB'000
Bank loans denominated in		
— RMB (i)	**130,000**	230,000
— United States dollar ("US dollar") (ii)	**17,437**	—
— HK dollar (iii)	**11,003**	—
	158,440	230,000

(i) The bank loans carried weighted average interest rates of 4.86% per annum as at 31 December 2010 (2009: 5.22%).

(ii) The bank loans carried a weighted average interest rate of 2.74% per annum as at 31 December 2010.

(iii) The bank loans carried a weighted average interest rate of 1.75% per annum as at 31 December 2010.

28. EQUITY-SETTLED SHARE-BASED TRANSACTION

Yashili (Guangdong) adopted a share option scheme on 1 January 2009 (the "2009 Employee Share Option Scheme"), to invite certain eligible participants to take up options (the "2009 Employee Share Options") to subscribe for the to-be-listed company at an exercise price of RMB0.85 per share. Total 9,360,000 share options were granted and 2 directors of the Company and 148 employees of the Group accepted the 2009 Employee Share Options.

On 1 August 2010, Yashili (Guangdong) further granted 3,597,600 share option (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 (the "2010 Employee Share Option Scheme"). Both the 2009 and 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.

28. EQUITY-SETTLED SHARE-BASED TRANSACTION (continued)

The 2009 and 2010 Employee Share Options originally granted by Yashili (Guangdong) to the grantees were exchanged into the Pre-IPO Share Options of the Company on 8 October 2010. Accordingly, 12,957,600 shares options under the 2009 and 2010 Employee Share Option Schemes were converted into 94,975,662 share options of the Company with substantially the same terms and conditions, except that the respective exercise prices were adjusted on a proportionate basis, being RMB0.11 in respect of the 2009 Employee Share Options and RMB1.84 in respect of the 2010 Employee Share Options. The conversion of the share options was considered as a modification to the 2009 and the 2010 Share Option Schemes. The modification did not result in any incremental value in respect of the fair value of the share options at the date of modification. Each of the Pre-IPO share option has a vesting period of two months to fifty months, commencing from the listing date. Each option gives the holder the right to subscribe for one ordinary share of the Company and is settled gross in shares.

(i) The terms and conditions of the Pre-IPO Share Option are as follows:

Date granted	Vesting date	Expiry date	Number of Pre-IPO Share Option granted Director	Employee	Total	Contractual life of options Years
1 January 2009	two months after 1 November 2010	15 days after vesting date	3,396,367	11,308,644	14,705,011	2.20
1 August 2010	two months after 1 November 2010	15 days after vesting date	–	4,290,121	4,290,121	0.62
1 January 2009	fourteen months after 1 November 2010	15 days after vesting date	3,396,367	11,308,644	14,705,011	3.20
1 August 2010	fourteen months after 1 November 2010	15 days after vesting date	–	4,290,121	4,290,121	1.62
1 January 2009	twenty-six months after 1 November 2010	15 days after vesting date	3,396,367	11,308,644	14,705,011	4.20
1 August 2010	twenty-six months after 1 November 2010	15 days after vesting date	–	4,290,121	4,290,121	2.62
1 January 2009	thirty-eight months after 1 November 2010	15 days after vesting date	3,396,367	11,308,644	14,705,011	5.20
1 August 2010	thirty-eight months after 1 November 2010	15 days after vesting date	–	4,290,121	4,290,121	3.62
1 January 2009	fifty months after 1 November 2010	15 days after vesting date	3,396,367	11,308,645	14,705,012	6.20
1 August 2010	fifty months after 1 November 2010	15 days after vesting date	–	4,290,122	4,290,122	4.62
			16,981,835	77,993,827	94,975,662	

28. EQUITY-SETTLED SHARE-BASED TRANSACTION (continued)

(ii) The number and weighted average exercise prices of share options are as follows:

	Year ended 31 December			
	2010		2009	
	Weighted average exercise price per share RMB	**Number of options**	Weighted average exercise price per share RMB	Number of options
Outstanding at the beginning of the year	**0.11**	**73,525,056**	–	–
Granted during the year	**1.84**	**21,450,606**	0.11	73,525,056
Forfeited during the year	**0.91**	**(374,547)**	–	–
Outstanding at the end of the year	**0.50**	**94,601,115**	0.11	73,525,056

The Pre-IPO Share Options outstanding at 31 December 2010 weighted average remaining expected life 2.2 years (2009: 3.2 years).

(iii) Fair value of share options and assumptions:
The fair value of services received in return for the Pre-IPO Share Options is measured by reference to the fair value of Pre-IPO Share Options granted. The estimated fair value of the Pre-IPO Share Options is measured based on a binomial option pricing model. The contractual life of the share option is used as an input into this model.

Fair value per share at measurement date (before modification)

	2010 Employee Share Options	2009 Employee Share Options
Fair value per share at measurement date	**RMB10.25**	RMB2.06
Exercise price per option	**RMB11.00**	RMB0.85
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**39.1%–59.9%**	61.1%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**2.62 years**	4.20 years
Expected dividends	**4.90%**	4.90%
Risk-free interest rate	**1.78% to 2.51%**	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 Pre-IPO Share Option.

29. PROVISION FOR SALES RETURN

	The Group	
	2010	2009
	RMB'000	RMB'000
Balance at the beginning of the year	**9,023**	46,665
Charge for the year	**–**	1,923
Utilised during the year	**(9,023)**	(39,565)
	–	9,023

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 unsalable in the market, an agreed percentage of the goods can be returned. The Group made provisions for the losses arising from the potential sale return based on its best estimate. On 2 September 2010, the Group issued a notice and announced all returned goods should be claimed before the deadline as at 20 September 2010, no further returns of the goods would be accepted thereafter. As at 31 December 2010, the provision for the sales returns had been fully utilised.

30. DEFERRED INCOME

	The Group	
	2010	2009
	RMB'000	RMB'000
Balance at the beginning of the year	**37,045**	–
Received during the year	**11,000**	38,900
Amortisation for the year	**(5,117)**	(1,855)
	42,928	37,045

Deferred income represented the government grants received 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 amount recognised as "Other revenue" in 2010 are RMB5,117,000 (2009: RMB1,855,000).

31. CAPITAL, RESERVES AND DIVIDENDS

(a) *Movements in components of equity*

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Translation reserve RMB'000	Equity-settled share based payment reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
Balance at 3 June 2010 (date of incorporation)	—	—	—	—	—	—	—
Total comprehensive income	—	—	—	(64,330)	—	(3,975)	(68,305)
Shares issued upon reorganisation	9	—	1,449,863	—	—	—	1,449,872
Share issued by share offer	49,312	1,932,213	—	—	—	—	1,981,525
Capitalisation issue	251,364	(251,364)	—	—	—	—	—
Equity-settle share-based payments	—	—	—	—	7,389	—	7,389
Balance at 31 December 2010	300,685	1,680,849	1,449,863	(64,330)	7,389	(3,975)	3,370,481

(b) *Dividends*

Dividends payable and proposed to equity shareholders of the Company attributable to the profit for the year:

	The Group	
	2010 RMB'000	2009 RMB'000
Final dividend proposed after the balance sheet date of RMB7 cents per ordinary share (2009: nil)	**246,324**	—

The final dividend proposed after the end of the balance sheet date has not been recognised as a liability at the balance sheet date.

31. CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital

Authorised and issued share capital

	2010 No. of shares '000	RMB'000
Authorised:		
Ordinary shares of HKD0.1 each (ii)	10,000,000	861,600
Ordinary shares, issued and fully paid:		
At 3 June 2010 (date of incorporation)	—	—
Shares issued upon the Reorganisation (ii)	100	9
Capitalisation issue (iii)	2,925,900	251,364
Shares issued by share offer (iv)	574,000	49,312
At 31 December 2010	3,500,000	300,685

(i) During the year ended 31 December 2009, the then equity owners of Yashili (Guangdong) 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.

(ii) Share capital as at 1 January and 31 December 2009 represented the nominal value of the share capital of Yashili (Guangdong). On 3 June 2010, the Company was incorporated in Cayman Islands with an authorised share capital of HKD380,000 divided into 3,800,000 shares of HKD0.1 each and one share was allotted and issued. On 2 July 2010, as a part of the Reorganisation, the Company issued 99,999 shares with par value of HKD0.1 each to the then shareholders of Yashili (Guangdong), equivalent to RMB9,000. On the same day, each of the then shareholders of Yashili (Guangdong) entered into a separate equity agreement with Yashili (HK), pursuant to which Yashili (HK) agreed to acquire the entire equity interest in Yashili (Guangdong). The Reorganisation was completed on 5 July 2010 and Yashili (Guangdong) became a wholly owned subsidiary of Yashili (HK). As a result of the Reorganisation, the Company's share capital of RMB9,000 was credited as fully paid, Yashili (Guangdong)'s share capital of RMB592,105,000 and share premium of RMB775,108,000 were eliminated and a merger reserve of RMB1,367,204,000 was resulted.

(iii) Pursuant to the resolution of the Company's shareholder passed on 8 October 2010, the authorised share capital of the Company was increased from HKD380,000 to HKD1,000,000,000; in addition, 2,925,900,000 ordinary shares of HKD0.1 each were issued at par value to the shareholders of the Company as of 8 October 2010 by way of capitalization of HKD292,590,000 (equivalent to RMB251,364,000) from the Company's share premium account.

(iv) The shares of the Company were listed on the Stock Exchange on 1 November 2010, with a total number of 3,500,000,000 shares, among which 644,000,000 shares (18.4% of the total number of shares of the Company) were issued to the public, comprising 574,000,000 new shares and 70,000,000 sale shares. The gross proceeds received by the Company from the global offering were approximately HKD2,411 million.

31. CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Share premium

The excess of the issued price net of any issuance expenses over the par value of the shares issued has been credited to the share premium account of the Company.

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(e) Merger reserve

As part of the Reorganisation, the then shareholders of Yashili (Guangdong) transferred their equity interests in Yashili (Guangdong) to Yashili HK on 2 July 2010. A merger reserve of RMB1,367,204,000 was resulted from these transfers for the purposes of the consolidated financial statements. For details, please see Note 31(c)(ii).

(f) PRC statutory reserves

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

(g) Equity-settled share-based payment reserve

Equity-settled share-based payment reserve represents the fair value of the actual or estimated number if unexercised share options granted to employees of the Group in accordance with the accounting policy adopted for share-based payments in Note 2(m)(iv).

(h) 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 2(e)(iii).

(i) Distributable reserve

The Company was incorporated on 3 June 2010 and no reserve available for distribution to shareholders as at 31 December 2009.

The aggregate amount of distributable reserve of the Company at 31 December 2010 is RMB1,676,874,000 (2009: nil). After the balance sheet date the directors proposed a final dividend of RMB7 cents per ordinary share, amounting to RMB246,324.000. This dividend has not been recognised as a liability at the balance sheet date.

32. 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 90 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 required 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 2009 and 2010. At balance sheet dates, the Group has a certain concentration of credit risk of the trade receivables, the top five trade debtors represented 13.9% of total trade receivables as at 31 December 2010 (2009: 42.3%). 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 consolidated balance sheets. The Group does not provide any other guarantees which would expose the Group to credit risk.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(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:

The Group

	2010 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	**More than 1 year but less than 2 years RMB'000**	**Total RMB'000**	**Balance sheet carrying amount RMB'000**
Loans and borrowings	**159,753**	**–**	**159,753**	**158,440**
Amounts due to related parties	**4,566**	**–**	**4,566**	**4,566**
Trade and other payables (excluded advances from customers)	**428,297**	**–**	**428,297**	**428,297**
Total	**592,616**	**–**	**592,616**	**591,303**

	2009 Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total RMB'000	Balance sheet carrying amount 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 (excluded advances from customers)	488,681	–	488,681	488,681
Total	738,138	–	738,138	728,808

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(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, the Group has no other significant interest-bearing assets. The Group does not account for any fixed interest rate financial assets or liabilities at fair value in the year, neither does the Group obtain any loans and borrowings at variable interest rates. Accordingly, the Group's finance income and expenses, operating and financing cashflow are substantially independent of changes in market rates.

Sensitivity analysis

As at 31 December 2010, if interest rates on deposits with banks had been 27 basis points higher/lower with all other variables held constant, profit after tax for the year and retained profits would have been RMB7,238,000 (2009: RMB1,588,000) 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.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Market risk (continued)

(iii) Foreign currency risk (continued)

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 did not apply hedge accounting in respect of the forward exchange contracts. In addition to above, with establishment of overseas entities, the Group is exposed to foreign currency risk on bank deposits, other receivable and bank loans of the overseas entities.

The Group's assets and liabilities denominated in US dollars as at 31 December are set out below:

	The Group	
	2010	2009
	RMB'000	RMB'000
Cash and cash equivalents	**2,646**	–
Other receivables	**121**	–
Trade payables	**(8,459)**	–
Bank loans	**(17,437)**	–
Gross exposure arising from recognised assets and liabilities	**(23,129)**	–
Notional principal amounts of forward contracts	**10,961**	–
Net exposure arising from recognised assets and liabilities	**(12,168)**	–

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(c) Market risk (continued)

(iii) Foreign currency risk (continued)

The Group received approximately HKD2.4 billion from the global offering. In order to mitigate the exchange risk arising from the appreciation in the value of Renminbi against HK dollars, the Company converted major into RMB. The following table set out the Group's financial assets and liabilities denominated in HK dollars as at 31 December.

	The Group	
	2010 **RMB'000**	2009 RMB'000
Cash and cash equivalents	**251,644**	–
Bank loans	**(11,003)**	–
Other receivables	**698**	–
Other payables	**(2,957)**	–
Net exposure arising from recognised assets and liabilities	**238,382**	–

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 and HK dollars on the profit after tax and retained profits as at 31 December are shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Increase/(decrease)on profit after tax and retained profit	
Effect in RMB	**2010** **RMB'000**	2009 RMB'000
US dollar	**456**	–
HK dollar	**(11,919)**	–

A 5% weakening of the RMB against US dollars and HK dollars as at the same dates would have had the equal but opposite effect.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(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 consolidated 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 consolidated balance sheet.

	The Group	
	2010	2009
	RMB'000	RMB'000
Loans and borrowings (Note 27)	**158,440**	230,000
Bills payable (Note 26)	**11,124**	8,988
Total borrowings	**169,564**	238,988
Less: Cash and cash equivalents (Note 25)	**2,759,273**	660,628
Pledged bank deposits (Note 24)	**32,904**	8,989
Net debt	**(2,622,613)**	(430,629)
Total equity attributable to shareholders of the Company	**3,730,815**	1,278,926
Adjusted net debt-to-equity ratio	**(0.70)**	(0.34)

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

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(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

	2010 **Level 2**
Assets	
Derivative financial instruments	
— Forward exchange contracts	**68**

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

During the years ended 31 December 2009 and 2010, 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 2009 and 2010 due to the short maturities of these instruments.

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (continued)

(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.

33. COMMITMENTS

(a) Capital commitments, outstanding at 31 December not provided for in the financial statements were as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Contracted for	**11,226**	10,982

(b) At 31 December, the total future minimum lease payments under non-cancellable operating leases in respect of land and properties were payable as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Within one year	**11,479**	10,436
After one year but within five years	**11,533**	10,791
After five years	**6,031**	8,711
	29,043	29,938

The Group leases a number of land and properties under operating leases. The leases run for period from one to twenty-six years, certain of the leases are with an option to renew when all terms are renegotiated. None of the leases includes contingent rentals.

34. MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2010, the directors are of the view that related parties of the Group include the following individuals/companies.

Name of related party	Relationship
Mr. Zhang Likun, Mr. Zhang Lihui, Mr. Zhang Liming, Mr. Zhang Lidian, Mr. Zhang Libo and Ms. She Lifang (collectively referred to as "Zhang's Family")	the Controlling Shareholders
Shantou Zhang's Investment Co., Ltd. ("Zhang's Investment") ("汕頭張氏投資有限公司") (i)	Under common control of the Controlling Shareholders
Haoweijia Food Co., Ltd. ("Haoweijia Food") (廣東好味佳食品有限公司) (i)	Under common control of the Controlling Shareholder
Chaoan County Anbu Yingjia Paper and Plastic Products Factory ("Yingjia") (潮安縣庵埠營佳紙塑製品廠) (i)	Under the control of a close family member of a director of the Company

(i) 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 year are as follows:

(a) Recurring transactions

	The Group	
	2010	2009
	RMB'000	RMB'000
Sale of packing materials to Haoweijia Food	**2,572**	2,418
Purchase of preserved fruit products from Haoweijia Food	**5,004**	1,829
Rent of property and plant from the Zhang's Investment	**2,789**	2,705
Purchase of plastic spoons and covers from Yingjia	**6,093**	4,801

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms in the ordinary course of business.

34. MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

(i) Amounts due from related parties

	The Group	
	2010 **RMB'000**	2009 RMB'000
Trade related		
— Yingjia	**—**	1,611
— Haoweijia Food	**1,432**	1,898
Non-trade related		
Advance to Zhang's Investment	**—**	2,000
Other receivables from		
— the Zhang's Family (1)	**—**	15,564
— Haoweijia Food	**24**	86
	1,456	21,159

(ii) Amounts due to related parties

	31 December	
	2010 **RMB'000**	2009 RMB'000
Trade related		
— Yingjia	**1,157**	1,296
— Haoweijia Food	**3,356**	8,831
— Zhang's Investment	**53**	—
	4,566	10,127

(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.

(2) The amounts due from/to related parties as at 31 December 2009 and 2010 were expected to be recovered/repaid within one year. All advances to/from related parties are unsecured.

35. NON-ADJUSTED POST BALANCE SHEET EVENTS

Final dividend

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 31(b).

36. PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2010, the directors consider the immediate parent and ultimate holding company of the Group to be Zhang International investment Ltd., which is incorporated in BVI with limited liability and beneficially owned by Zhang's Family. This entity does not produce financial statements available for public use.

37. ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty are as follows:

(i) Impairment loss for trade and other receivables

As explained in Note 2(l), the Group makes impairment loss for trade and other receivables based on the Group's estimates of the present value of the estimated future cash flow. Given the uncertainties involved in estimating the future cash flow of individual customer, the actual recoverable amount may be higher or lower than that estimated at the balance sheet date.

(ii) Provision for inventories

As explained in Note 2(k), the Group's inventories are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the inventories, the Group makes estimates of the selling prices, the costs of completion in case for work in progress, and the costs to be incurred in selling the inventories. Uncertainty exists in these estimations.

(iii) Impairment loss for property, plant and equipment

As explained in Note 2(l), the Group's makes impairment loss for property, plant and equipment based on the Group's estimates of the recoverable amount. Uncertainty exists in these estimations.

(iv) 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.

37. ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(v) Provision

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 29, 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.

38. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the IASB has issued the a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for annual periods beginning on or after
Revised IAS 24, Related Party Disclosures	1 January 2011
Improvements to IFRSs 2010	1 July 2010 or 1 January 2011
Amendments to IAS 12, Income taxes	1 January 2012
IFRS 9, Financial Instruments	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

FOUR-YEAR FINANCIAL SUMMARY

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

The table below sets forth our summary income statement information for the periods indicated:

	Year ended 31 December			
(RMB million)	2007	2008	2009	**2010**
Turnover	2,892.2	2,751.6	2,586.0	**2,954.4**
Cost of sales	(1,637.1)	(1,463.7)	(1,095.6)	**(1,272.6)**
Gross profit	1,255.1	1,287.9	1,490.4	**1,681.8**
Other revenue	20.1	17.0	34.7	**61.2**
Other net (loss)/income	(0.1)	(1.0)	0.1	**(0.6)**
Selling and distribution costs	(709.0)	(1,059.1)	(891.9)	**(957.5)**
Administrative expenses	(66.6)	(137.3)	(129.1)	**(182.8)**
Other expenses	(8.8)	(795.9)	(14.2)	**(11.5)**
Profit/(loss) from operations	490.7	(688.4)	490.0	**590.6**
Finance income	14.8	7.8	3.4	**11.9**
Finance costs	(11.6)	(21.3)	(22.1)	**(13.0)**
Net finance income/(expense)	3.2	(13.5)	(18.7)	**(1.1)**
Profit/(loss) before income tax	493.9	(701.9)	471.3	**589.5**
Income tax expense	(23.5)	87.1	(68.9)	**(86.3)**
Profit/(loss) from continuing operations	470.4	(614.8)	402.4	**503.2**
Discontinued operation				
Loss from discontinued operation (net of income tax)	(0.5)	—	—	**—**
Profit/(loss) for the year	469.9	(614.8)	402.4	**503.2**
Profit/(loss) attributable to				
Equity holders of the Company	415.6	(563.9)	404.7	**502.4**
Non-controlling interests	54.3	(50.9)	(2.3)	**0.8**
Profit/(loss) for the year	469.9	(614.8)	402.4	**503.2**

The table sets forth our summary balance sheet information as of 31 December 2007, 2008, 2009 and 2010:

	As of 31 December			
(RMB million)	2007	2008	2009	**2010**
Non-current assets	731.4	1,056.8	1,007.1	**992.5**
Current assets	939.3	856.2	1,216.4	**3,488.2**
Current liabilities	1,050.9	1,886.2	896.2	**696.2**
Net current assets/(liabilities)	(111.6)	(1,030.0)	320.2	**2,792.0**
Total assets less current liabilities	619.8	26.8	1,327.3	**3,784.5**

The financial information for each of the three years ended 31 December 2009 has been prepared upon the Reorganisation as if the group structure, at the time when the Shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The results for each of the three years ended 31 December 2009, and the assets and liabilities as at 31 December 2007, 2008 and 2009 have been extracted from the Prospectus.