# AUSNUTRIA DAIRY CORPORATION LTD
# 澳優乳業股份有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1717)


## 2011
## Interim Report

# Contents

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

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

### Independent Non-executive Directors

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

## COMPANY SECRETARIES

Ms. Ng Siu Hung
Mr. Lam Hiu Fung

## AUTHORISED REPRESENTATIVES

Ms. Ng Siu Hung
Mr. Lam Hiu Fung

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## AUDITORS

Ernst & Young
Certified Public Accountants

## LEGAL ADVISERS

## (AS TO HONG KONG LAW)

Mallesons Stephen Jaques

## REGISTERED OFFICE

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

## HEADQUARTER

No.2 East Wangwang Road, Hexi,
Changsha City, Hunan Province, China

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG SHARE REGISTRAR

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

## PRINCIPAL BANKERS

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

## STOCK CODE

1717

## COMPANY'S WEBSITE

www.ausnutria.com.hk

# Management Discussion and Analysis

## BUSINESS REVIEW

For the six months ended 30 June 2011, the Group recorded a sales revenue of approximately RMB219,030,000, representing a decrease of approximately RMB75,520,000 or approximately 25.6%.

Gross profit was approximately RMB116,584,000, representing a decrease of approximately RMB37,399,000 or 24.3% over approximately RMB153,983,000 for the six months ended 30 June 2010. The Group's profit attributable to ordinary equity holders of the parent decreased by approximately 8.2% to RMB54,739,000 and the basic earnings per share was approximately RMB5.43 cents, representing a decrease of approximately RMB0.28 cents over 30 June 2010.

In the first half of 2011, the Group continued its established business strategy to explore merger and acquisition opportunities in the upper stream so as to strengthen its supply capacity, research and development capacity, as well as the internationalization of its brandname, workforce and operation. During the period under review, significant progress has been achieved as a result of the investment in Hyproca Dairy Group B.V. ("Hyproca Dairy"). The first stage of the investment in Hyproca Dairy has been completed with approximately 19.44% of its issued shares being acquired. Transaction regarding the further investment in 31.56% of the shares in Hyproca Dairy is in progress. Besides, the Group has commenced the restructuring of its sales and distribution system since last year, which involved the change from distributors being responsible for sales and marketing activities to the direct involvement by the Group's own sales office workforce. The purpose of the restructuring is to strengthen the Group's control of the sales network and its marketing capacity. In addition, during the period under review, a new information system of the Group has been set up and the Group has purchased the latest version of the ERP, CDM and CRM systems from a first class international software supplier and has appointed them to conduct implementation of the system for the Group. The purpose of setting up these new system is to provide better services to its consumers and to enhance the operational efficiency of the Group. The Group believes that the above changes have brought a temporary impact on its sales but with the improvement and establishment of such sales and distribution system, the relationship between the Group and its end consumers is set to be closer, which will facilitate the Group to market its products in a more effective manner in the long run. The sales of the Group during the period decreased by approximately 25.6% as compared with that of the same period last year. The selling and distribution costs dropped significantly by 48.1% as compared to that of the same period last year.

As for cash flow, net cash inflow from operating activities of the Group was approximately RMB61,479,000 for the six months ended 30 June 2011, representing a significant improvement as compared to the net cash outflow of approximately RMB124,382,000 for the same period last year.

The Group currently has four major product series of paediatric milk formula and other paediatric nutritional supplements. The four major product series are A-choice Series, Best-choice Series, Allnutria Series and Allnutria Organic Series, which are designed to target consumers of high-priced and premium-priced products.

# Management Discussion and Analysis

Details of the Group's products during the six-month period ended 30 June 2011 are set out below:

## A-choice Series

The A-choice Series is divided into three stages for infants and toddlers of different ages: for new born infants up to 12 months of age; for infants and toddlers aged from six months to 18 months; and for toddlers aged from 12 months to three years. The formula for the A-choice Series products contains a combination of probiotics which is known for enhancing the development of healthy bacteria and for encouraging nutritional absorption as well as ingredients which are known to assist neurological development of infants and toddlers. The products in the A-choice Series are available in cans and aluminium foil bag packages of different volumes to cater for the different needs of consumers. The A-choice Series products are targeted towards the high-priced paediatric milk formula market.

## Best-choice Series

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

## Allnutria Series

The Allnutria Series, which was jointly developed by the Group and Tatura Milk Industries Limited ("Tatura"), is divided into four stages for infants and toddlers of different ages: for new born infants up to 100 days of age; for infants aged from 100 days to 180 days; for infants aged from 180 days to 360 days; and for toddlers aged from 360 days and upwards. The formula of the Allnutria Series is most similar to natural mother's breast milk which is known to strengthen the infant and toddler's immune system as well as to enhance the infant and toddler's intestinal system. It has been well accepted by the market. Since its launch, it has been the product with the highest sales revenue of the Group.

## Allnutria Organic Series

The Allnutria Organic Series, which was jointly developed by the Group and Tatura, is certified by both the National Association for Sustainable Agriculture, Australia ("NASAA") and China Organic Food Certification Center ("COFCC"). The Allnutria Organic Series is divided into three stages for infants and toddlers of different ages: for new born infants up to six months of age; for infants and toddlers aged from six months to 12 months; and for toddlers aged from 12 months to three years. The Allnutria Organic Series meets the requirements of parents who are particularly concerned about health and use environmentally friendly products.

## Other Products

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

## Branding and Marketing

Since its establishment, the Group has been devoting to the promotion of the brand “Ausnutria”, which has been accredited as “China Well-known Trademark” in early 2010 by the State Administration for Industry and Commerce of the People’s Republic of China (the “PRC”) in relation to trademark awareness.

During the period under review, the Group succeeded in launching TV commercials in various TV programs for the advertising of Ausnutria products, including, “Day Day Up” TV program, which is considered to have the highest viewership rate in China, and the “730 and 830 programs” of the Hunan TV, which is considered to be one of the most attractive TV programs recently with high and stable viewership rate.

During the period under review, to align with the investment in century-old dairy products enterprise, Hyproca Dairy, the Group organized more than 1,900 sessions of marketing activities, namely, “Integration of A Hundred Year-Old Dairy Enterprise – Ausnutria Members Thanks-Giving Season”, which is a series of large scale consumers activities aiming at penetrating Ausnutria branding into different levels of consumers throughout China.

## Marketing and Distribution

The Group previously sold its products mainly through distributors, and the Group’s distributors are responsible for all regional marketing and promotion activities, including advertising in retail outlets and arranging paediatric nutrition education seminars. Since 2010, the Group has restructured its sales and distribution system. Under the new system, the Group has extended its involvement in all the major regional sales and marketing activities.

During the period under review, the Group has continued to expand its sales and marketing teams and set up regional sales offices in order to better manage the marketing and promotion activities and the coordination with distributors in a more timely and effective manner. As at 30 June 2011, the Group had a total of 17 (31 December 2010: 17) sales offices and the sales and marketing personnel has increased to 354 (31 December 2010: 314). The number of distributors was 302 (31 December 2010: 423), with sales network covering all major provinces and cities in China. The decrease in number of distributors as compared to 2010 was mainly attributable to the merging of some of the distributors in the market during the period under review. Otherwise, the number of distributors should has a double-digit growth instead.

The Group believes that through the restructuring and changes carried out in 2010, the Group is better positioned to capture the market opportunities ahead.

During the period under review, the Group also implemented a new marketing and sales channel through the efforts of respective sales offices across the country. As at 30 June 2011, the Group has established over 580 “giant ship” shops nationwide which were set up according to the sales performance of respective cities in China.

In addition, during the period under review, the Group further strengthened the promotion of e-commerce, and had actively expanded “Business to Business” and “Business to Consumers” markets and established long-term cooperation agreement with ten e-commerce and shopping channels, including taobao.com, 360buy.com and Happy Shopping. For the six months ended 30 June 2011, the sales revenue generated from e-commerce increased by more than 100% as compared with that of the same period last year.

# Management Discussion and Analysis

In order to provide better sales services to consumers and to increase their loyalty, during the period under review, the Group also launched a new membership program, namely, "Members Experience Sales". As at 30 June 2011, there were a total of 27,732 (31 December 2010: 1,221) registered members.

## Production and Quality Control

In November 2010, the PRC government issued a notice and required all enterprises engaged in the production of formula milk powder in China to re-apply for production license. The new rule implemented more stringent requirement on the production process and quality control of formula milk powder production. The Group has already obtained the new production license.

In order to enhance consumers' confidence over the quality of the milk powder products, during the period under review, the Group purchased a number of testing equipment and ancillary testing meters, which greatly enhanced its testing capability to international level. The Group will continue to commit to input more resources to ensure its products achieving the highest safety and quality standards.

In addition, during the period under review, 澳優乳業(中國)有限公司 (Ausnutria Dairy (China) Co., Ltd) ("Ausnutria China"), an wholly-owned subsidiary of the Company was selected as Food Safety Model Enterprise of Wangcheng County, and has received a certificate of honour and granted bonus from Wangcheng County Food Safety Committee.

## Research and Development

Technology research and development has always been the key element of the Group's sustainability. During the period under review, the Group continued to strengthen its research and development capability in order to enhance the protection of its core technology, upgrade existing products and develop new products.

In May 2011, Ausnutria China obtained the certification as a 高新技術企業 (High Technology Enterprise) from 湖南省科學技術廳 (Hunan Provincial Science & Technology Department), 湖南省財政廳 (Hunan Provincial Finance Department), 湖南省國家稅務局 (State Tax Bureau of Hunan Province) and 湖南省地方稅務局 (Local Tax Bureau of Hunan Province) (the "High Technology Enterprise Certification"). The High Technology Enterprise Certification is valid for a period of three years.

## BUSINESS OUTLOOK

In mid-October of 2010, the PRC government announced its Twelfth Five-Year (2011-2015) Plan of National Economy and Social Development. During the next five years, one of the tasks for the fiscal policy is to promote domestic consumption, and to lead the economy to avert the negative impact resulting from the low growth brought by export and investment.

The Group's goals are to strengthen its position as a leading paediatric milk formula company in the PRC market and to expand its market share in the PRC.

The Group will continue to accomplish the above goals by implementing the following strategies:

(1) sourcing milk powder from new suppliers or exploring investment opportunities, in order to secure its milk powder supplies by way of upward integration with potential milk powder suppliers to support its diversification;

(2) continuing its effort in branding, adjusting its previous advertising strategies and promoting its products at a more cost effective way by establishing closer link with its end consumers and to focus on the implementation of information system to enhance our customer services and operation;

(3) reinforcing control of production and quality to ensure all the products for sale achieving the highest standard set by the Group;

(4) enhancing its research and development to ensure that the Group will launch related dairy products in a timely and effective manner to meet the market needs; and

(5) continuing to expand its marketing network.

Reference is made to the announcements of the Company dated 29 March 2011, 13 June 2011, 4 July 2011 and 20 July 2011 in relation to the subscription and acquisition of 51% equity interests in Hyproca Dairy. Hyproca Dairy and its subsidiaries ("Hyproca Group") are principally engaged in the dairy industry in the Netherlands. Hyproca Group was established over a century ago, and its principal activities range from research and development, milk collection, processing, production, packaging to marketing and sales of dairy products. It also has its own formula milk powder productions and is a leading producer of goat milk powder in the world.

As at 3 July 2011, the Group completed the acquisition of approximately 19.44% equity interests of Hyproca Dairy. The acquisition of the remaining of approximately 31.56% equity interests is estimated to be completed in the fourth quarter of this year.

Upon completion, the principal operating subsidiaries of the Hyproca Group are Hyproca Dairy B.V. ("Hyproca"), Lypack Holding B.V. ("Lypack Holding"), HB Food Group B.V. ("HB Food") and Hyproca Lyempf B.V. ("Hyproca Lyempf").

The history of Hyproca Group goes back to 1897 when its first factory was established. The factory of Hyproca forms the basis of the Hyproca Group. The factory of Hyproca started its first milk powder productions in 1928 and has been producing milk powders since then.

The factory of Lypack Holding first started its production of baby formulae in 1938. Lypack Holding and its subsidiaries are experienced and dedicated producers of a wider range of infant formulae of high quality.

HB Food and its subsidiaries specialise in the complete chain of fresh Dutch goat milk from collection from farms to finished products. HB Food is a leading producer of goat milk powder in the world.

In addition, in April 2011, the Hyproca Group completed an acquisition of certain assets in respect of dairy products production, including the dairy production facilities for pre-processing of raw milk and two spray dryers with capacity of 27,000 tons of powder and has injected these assets into Hyproca Lyempf. As a result of the aforesaid acquisition, the Hyproca Group is equipped with a full production chain of infant formula milk powder products and other dairy products.

The Group believes that the above acquisition will bring potential synergistic effect to the businesses of the Group and the Hyproca Group, and is in line with the restructuring of the sales and distribution system of the Group and the support from national policy, which is beneficial to the future development of the Group in the long run.

## FINANCIAL REVIEW

During the period under review, the Group recorded a sales revenue of approximately RMB219,030,000, representing a decrease of approximately 25.6% as compared with that of the same period last year. Such decrease in revenue was mainly due to the temporary impact caused by the reorganization of the sales and distribution system underwent by the Group. The cost of sales of the Group for the period under review amounted to approximately RMB102,446,000.

For the first half of 2011, the gross profit of the Group amounted to approximately RMB116,584,000 while the gross profit margin was 53.2%, representing a slight increase of about 0.9% as compared with that of the same period last year.

Previously, sales and marketing activities were mainly carried out by the distributors of the Group across the country. In order to promote its products in a more effectively way in the long run, the Group has reorganized its sales and distribution system in 2010 so that most major sales and promotion activities has been carried out by the Group's self-owned sale offices instead. The selling and distribution costs of the Group significantly dropped by 48.1% as compared with that of the same period last year.

For the first half of 2011, the administrative cost of the Group increased by approximately 23.5% to RMB14,116,000 as compared with that of the same period in 2010. The increase in administrative cost was mainly attributable to the increment in staff for the Group's business development as well as the additional professional fee and travel expenses arising from the acquisition of Hyproca Dairy during the period under review.

No borrowing was recorded for the Group during the period under review, and hence there was no interest expense for the period under review.

For the first half of 2011, the Group's actual corporate income tax rate was 15.7% (30 June 2010: 7.2%).

The sales revenue and profit of the Group are mainly attributable to Ausnutria China. In May 2011, Ausnutria China obtained the High Technology Enterprise Certification (高新技術企業認證).The High Technology Enterprise Certification is valid for a period of three years. Pursuant to the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), the enterprise income tax rate for Ausnutria China for the coming three financial years is thus reduced from 25% to 15% (preferential enterprise income tax rate). As Ausnutria China is still entitled to an exemption from the enterprise income tax for the first two years, a 50% reduction in the enterprise income tax for the subsequent three years applicable to the foreign investment companies in the corresponding period last year, and a tax refund for corporate income tax of RMB5,692,000 was recorded in the corresponding period last year, the Group's actual corporate income tax rate was 7.2% only.

# Other Information

## MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Save for the acquisition of Hyproca Dairy (the "Acquisition"), as at 30 June 2011, there were no material investments and acquisitions and disposals of subsidiaries.

The Acquisition constitutes a major transaction for the Company under Chapter 14 of the Rules (the "Listing Rules") Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and is therefore subject to the approval by the shareholders of the Company at the shareholders' meeting by way of poll.

Details of the Acquisition will be included in the circular of the Company to be despatched to the shareholders of the Company in due course.

## FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group will continue to explore investment opportunities in order to secure its milk powder supplies by way of upward integration with potential milk powder suppliers in the PRC, Australia, Europe or elsewhere. As at the date of this report, save for the Acquisition, the Group has not entered into any legally binding agreement or arrangement with respect to the upward integration opportunities mentioned above.

## FINANCIAL RESOURCE, LIQUIDITY AND PLEDGE OF ASSETS

As at 30 June 2011, net assets of the Group amounted to approximately RMB1,036,447,000 (31 December 2010: RMB1,135,672,000); current assets amounted to approximately RMB940,680,000 (31 December 2010: RMB1,132,617,000), of which approximately RMB438,403,000 (31 December 2010: RMB638,984,000) were cash and bank deposits.

The Group usually applies its cash flows generated internally to meet its operational needs. With the funds raised through the initial public offering, the Group has plenty of financial resources and sufficient liquidity to meet its daily business operations and future development.

As at 30 June 2011, the Group has not pledged any assets to any third party (31 December 2010: nil).

## CAPITAL STRUCTURE

Details of movement in the Company's capital structure during the period under review are set out in note 20 to the interim condensed consolidated financial statements contained in this report. The Company's capital structure only comprises ordinary shares.

## GEARING RATIO

As at 30 June 2011, the Group's current liabilities amounted to approximately RMB109,274,000 (31 December 2010: RMB68,953,000). The Group's ratio of current liabilities over current assets was approximately 11.6% (31 December 2010: 6.1%) and the gearing ratio was approximately 10.5% (31 December 2010: 6.1%) on the basis of total liabilities over net assets. As at 30 June 2011, the Group had no outstanding bank loans (31 December 2010: nil).

# Other Information

## INTEREST AND FOREIGN EXCHANGE RISK

During the period under review, the Group did not have any debt obligation with floating interest rates (31 December 2010: nil). Accordingly, the Group had no significant interest rate risk.

Substantially all of the Group's businesses are denominated in RMB and US Dollars and RMB is the Group's presentation currency. As at 30 June 2011, except for the investment in Hyproca Dairy which was denominated in Euro and certain cash and bank balances were denominated in HK$ and Euro, the Group's assets and liabilities were all accounted for in RMB. The fluctuations in foreign exchange had no material effect on the Group as foreign exchange risk faced by the Group was relatively low.

## CREDIT RISK

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

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

## CAPITAL COMMITMENTS

As at 30 June 2011, the Group had no significant capital commitments (31 December 2010: nil).

## CONTINGENT LIABILITIES

As at 30 June 2011, the Group had no significant contingent liabilities (31 December 2010: nil).

## USE OF PROCEEDS

The shares of the Company were listed on the Main Board of the Stock Exchange on 8 October 2009 with net proceeds from the global offering of the Company's shares of approximately HK$823.1 million (after deducting underwriting commissions and related expenses).

The use of the net proceeds from the global offering up to 30 June 2011 was as follows:

| | **As stated in the prospectus** HK$'000 | **Utilised** HK$'000 | **Balance as at 30 June 2011** HK$'000 |
|---|---|---|---|
| Invest in upstream operations | 246,930 | (131,029) | 115,901 |
| Expand the Group's distribution network and brand building | 246,930 | (182,156) | 64,774 |
| Enhance the Group's research and development efforts | 82,310 | (17,971) | 64,339 |
| Introduce new series of organic paediatric nutrition products | 82,310 | (61,346) | 20,964 |
| Establish new production lines and warehouse | 82,310 | (19,183) | 63,127 |
| General working capital | 82,310 | (82,310) | – |
| | 823,100 | (493,995) | 329,105 |

The remaining balance was deposited in reputable financial institutions.

The directors (the "Directors") of the Company intend to apply the remaining net proceeds in the manner as set out in the announcement of the Company dated 8 September 2010.

## EMPLOYEES

As at 30 June 2011, the Group employed approximately 528 (31 December 2010: 512) employees. The increase in the number of employees was due to the expansion of the Group's business and to cope with the Group's business promotion and market exploration activities. The salary levels of employees are determined by their performance, qualifications, experience and contribution to the Group with reference to general market trend.

The total employees expenses of the Group including Directors' remuneration charged to the consolidated statement of comprehensive income for the six months ended 30 June 2011 amounted to approximately RMB16,117,000 (six months ended 30 June 2010: RMB11,599,000). The increase in total employees expenses was due to the increase in the number of employees and salary increments adjusted in accordance with labour market trend.

# Other Information

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the period from 1 January 2011 to 30 June 2011, the Company repurchased 57,840,000 shares of the Company on the Stock Exchange. These shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Details of the repurchases during the period under review are summarised as follows:

| Month of repurchases | Number of shares repurchased | Highest price per share | Lowest price per share | Aggregate consideration paid |
|---|---|---|---|---|
| | | HK$ | HK$ | HK$ |
| January 2011 | 4,046,000 | 2.85 | 2.56 | 11,005,000 |
| February 2011 | 53,794,000 | 2.55 | 2.38 | 133,483,920 |
| | 57,840,000 | | | 144,488,920 |

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from 1 January 2011 to 30 June 2011.

## DIVIDEND DISTRIBUTION

The Directors do not recommend a payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: nil).

## DISCLOSURES PURSUANT TO RULE 13.20 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.20 of the Listing Rules, details in respect of the advance to an entity pursuant to Rule 13.13 of the Listing Rules are set out in note 15 to the interim condensed consolidated financial statements contained in this report.

## CHANGES OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Below are the changes of directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the annual report of the Company for the year ended 31 December 2010:

Mr. Chan Yuk Tong ("Mr. Chan"), an independent non-executive director and audit committee's chairman of the Company, had resigned as a non-executive director of Vitop Bioenergy Holdings Limited with effect from 24 May 2011.

The remuneration of Mr. Chan with the Company has been revised from HK$160,000 to HK$360,000 per annum with effect from 1 August 2011.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the Model Code throughout the period.

## CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has fully complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the six months period ended 30 June 2011.

## DIRECTORS'AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2011, the interests of the Directors and chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

*Interests in the shares/underlying shares of the Company*

| Name | Number of ordinary shares of HK$0.10 each of the Company (the "Shares") Held | Nature of Interest | Approximate Percentage of Shareholding |
|---|---|---|---|
| Mr. Wu Yueshi ("Mr. Wu") (1) | 474,646,000 | Interest of controlled corporation | 48.08% |
| Mr. Chen Yuanrong ("Mr. Chen) (2) | 107,000,000 | Interest of controlled corporation | 10.84% |

Note:

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

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

Save as disclosed above, as at 30 June 2011, none of the Directors and chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

# Other Information

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the reporting period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or children under 18, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2011, the following interests of 5% or more of the shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

*Interests in the shares/underlying shares of the Company*

| Name | Number of Shares Held | Nature of Interest | Approximate Percentage of Shareholding |
|---|---|---|---|
| All Harmony (1) | 107,000,000 | Beneficial owner | 10.84% |
| Brave Leader (2) | 214,646,000 | Beneficial owner | 21.74% |
| Silver Castle (3) | 60,000,000 | Beneficial owner | 6.08% |
| Ausnutria BVI (4) | 200,000,000 | Beneficial owner | 20.26% |
| Ms. Xiong Fanyi ("Mrs. Y Wu") (5) | 474,646,000 | Spouse interest | 48.08% |
| JP Morgan Chase & Co. | 51,154,000 | Interest of controlled corporation | 5.18% |

Note:

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

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

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

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

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

Save as disclosed above, as at 30 June 2011, no person, other than the Directors or chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO.

## SHARE OPTION SCHEME

On 19 September 2009, the Company adopted a share option scheme (the "Scheme"), whereby the Board is empowered to grant options to eligible persons, including directors, employees and advisers of the Group, to subscribe for the shares of the Company.

Since the adoption of the Scheme, no option has been granted under the Scheme.

## AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules. The primary duties of the audit committee are to provide our Board with an independent review of the effectiveness of the financial reporting process, internal control and risk management of the Group, to oversee the audit process and to perform other duties and responsibilities stated in the written terms of reference. The audit committee comprises three independent non-executive Directors, namely, Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong (Chairman). The Company's and the Group's financial statements for the six months ended 30 June 2011 have been reviewed by the audit committee.

# Report on Review of Interim Condensed Consolidated Financial Statements

ERNST & YOUNG
安 永

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

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

## INTRODUCTION

We have reviewed the interim condensed consolidated financial statements set out on pages 17 to 32, which comprise the interim condensed consolidated statement of financial position of Ausnutria Dairy Corporation Ltd (the "Company") and its subsidiaries (collectively the "Group") as of 30 June 2011 and the related interim condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six months then ended and explanatory notes (collectively referred to as "Interim Condensed Consolidated Financial Statements"). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

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

## SCOPE OF REVIEW

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

## CONCLUSION

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

**Ernst & Young**
*Certified Public Accountants*
Hong Kong

26 August 2011

# Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

| | | For the six months ended 30 June | |
|---|---|---|---|
| | | 2011 | 2010 |
| | Notes | RMB'000 | RMB'000 |
| | | (Unaudited) | (Unaudited) |
| **REVENUE** | 3 | 219,030 | 294,550 |
| Cost of sales | | (102,446) | (140,567) |
| Gross profit | | 116,584 | 153,983 |
| Other income and gains | 3 | 7,599 | 7,388 |
| Selling and distribution costs | | (39,105) | (75,381) |
| Administrative expenses | | (14,116) | (11,430) |
| Other expenses | | (5,999) | (8,919) |
| Finance costs | 4 | – | (1,371) |
| Profit before tax | 5 | 64,963 | 64,270 |
| Income tax expense | 6 | (10,224) | (4,620) |
| **PROFIT FOR THE PERIOD** | | 54,739 | 59,650 |
| **OTHER COMPERHENSIVE INCOME:** | | | |
| Exchange difference on translating foreign operations | | (600) | 170 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | 54,139 | 59,820 |
| Profit attributable to: | | | |
| Owners of the parent | | 54,739 | 59,650 |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | | 54,139 | 59,820 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** – basic and diluted (RMB) | 8 | 5.43 cents | 5.71 cents |

# Interim Condensed Consolidated Statement of Financial Position

30 June 2011

| | Notes | 30 June 2011 RMB'000 (Unaudited) | 31 December 2010 RMB'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 9 | 41,184 | 38,161 |
| Lease prepayments for land use rights | 10 | 2,228 | 2,256 |
| Intangible assets | | 1,934 | 1,855 |
| Deferred tax assets | | 2,329 | 4,017 |
| Investments in associates | | 3,260 | 2,611 |
| Long-term prepayments | 11 | 154,106 | 23,108 |
| Total non-current assets | | 205,041 | 72,008 |
| **CURRENT ASSETS** | | | |
| Inventories | 12 | 120,400 | 76,963 |
| Trade and bills receivables | 13 | 121,076 | 120,963 |
| Prepayments, deposits and other receivables | 14 | 54,122 | 80,734 |
| Held-to-maturity investment | 15 | 200,000 | 200,000 |
| Tax recoverable | | 6,679 | 14,973 |
| Cash and cash equivalents | 16 | 438,403 | 638,984 |
| Total current assets | | 940,680 | 1,132,617 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 17 | 14,365 | 8,784 |
| Other payables and accruals | 18 | 70,281 | 60,169 |
| Dividend payable | 19 | 24,628 | – |
| Total current liabilities | | 109,274 | 68,953 |
| **NET CURRENT ASSETS** | | 831,406 | 1,063,664 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 1,036,447 | 1,135,672 |
| **NET ASSETS** | | 1,036,447 | 1,135,672 |
| **EQUITY** | | | |
| Equity attributable to the owners of the parent | | | |
| Issued capital | 20 | 86,971 | 92,066 |
| Share premium | | 525,698 | 649,167 |
| Proposed final dividend | | – | 26,676 |
| Other reserves | | 423,778 | 367,763 |
| Total equity | | 1,036,447 | 1,135,672 |

Director Director

# Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

| | Attributable to owners of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Issued capital (note 20)** | **Share premium** | **Capital reserves*** | **Statutory surplus reserve*** | **Exchange fluctuation reserve*** | **Retained earnings*** | **Proposed final dividend** | **Total equity** |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Six months ended 30 June 2011 (Unaudited)** | | | | | | | | |
| At 1 January 2011 | 92,066 | 649,167 | 23,406 | 39,410 | (52) | 304,999 | 26,676 | 1,135,672 |
| Total comprehensive income for the period | – | – | – | – | (600) | 54,739 | – | 54,139 |
| Repurchase of shares (note 20) | (5,095) | (123,469) | – | – | – | 1,876 | (1,876) | (128,564) |
| 2010 dividend declared | – | – | – | – | – | – | (24,800) | (24,800) |
| At 30 June 2011 | 86,971 | 525,698 | 23,406 | 39,410 | (652) | 361,614 | – | 1,036,447 |
| **Six months ended 30 June 2010 (Unaudited)** | | | | | | | | |
| At 1 January 2010 | 92,066 | 675,843 | 23,406 | 26,598 | (190) | 207,644 | 55,206 | 1,080,573 |
| Total comprehensive income for the period | – | – | – | – | 170 | 59,650 | – | 59,820 |
| 2009 dividend declared | – | – | – | – | – | – | (55,206) | (55,206) |
| At 30 June 2010 | 92,066 | 675,843 | 23,406 | 26,598 | (20) | 267,294 | – | 1,085,187 |

* These components of equity comprise the other reserves of RMB423,778,000 (31 December 2010: RMB367,763,000) in the condensed consolidated statement of financial position.

# Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

| | For the six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| **NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES** | **61,479** | (124,382) |
| **NET CASH FLOWS USED IN INVESTING ACTIVITIES** | **(132,725)** | (239,080) |
| **NET CASH FLOWS USED IN FINANCING ACTIVITIES** | **(128,564)** | (436,823) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(199,810)** | (800,285) |
| Cash and cash equivalents at beginning of period | **638,984** | 1,465,887 |
| Effect of foreign exchange rate changes, net | **(771)** | (338) |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **438,403** | 665,264 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| Cash and cash equivalents | **438,403** | 665,264 |

## 1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2009. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The major offices of the Company are located at No. 2, East Wangwang Road, Hexi, Changsha City, Hunan Province, the People's Republic of China (the "PRC") and at Room 2101, Beautiful Group Tower, 77 Connaught Road Central, Central, Hong Kong. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 October 2009.

The Company acts as an investment holding company of the Group. The Group is principally engaged in the production, marketing and distribution of high-end and premium paediatric nutrition products in the PRC.

## 2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

### Basis of preparation

The Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2011 have been prepared in accordance with IAS 34 *Interim Financial Reporting* issued by IASB.

The Interim Condensed Consolidated Financial Statements does not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2010. The Interim Condensed Consolidated Financial Statements are presented in Renminbi ("RMB") and all values are rounded to nearest thousand (RMB'000), except when otherwise indicated.

### Impact of new and revised International Reporting Standard

The accounting policies adopted in the preparation of the Interim Condensed Consolidated Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except for the adoption of new standards and interpretations as of 1 January 2011, noted below:

| | |
|---|---|
| IFRS 1 Amendments | Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* |
| IAS 24 (Revised) | *Related Party Transactions* |
| IAS 32 Amendments | Amendments to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* |
| IFRIC 14 Amendments | Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* |
| IFRIC 19 | *Extinguishing Financial Liabilities with Equity Instruments* |

Apart from the above, in May 2010, the IASB issued Improvements to IFRSs 2010 which sets out amendments to IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13, primarily with a view to removing inconsistencies and clarifying wording.

The adoption of the new and revised standards and interpretations resulted in changes to accounting policies, but did not have significant impact on the financial position or performance of the Group.

## 3. REVENUE, OTHER INCOME AND GAINS

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

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

| | Note | Six months ended 30 June 2011 RMB'000 (Unaudited) | 2010 RMB'000 (Unaudited) |
|---|---|---|---|
| Revenue | | | |
| Sale of goods | | **219,030** | 294,550 |
| Other income and gains | | | |
| Interest income | | **2,379** | 1,416 |
| Investment income from a held-to-maturity investment | | **4,346** | 2,472 |
| Government grants | (i) | **331** | 3,500 |
| Others | | **543** | – |
| Total other income and gains | | **7,599** | 7,388 |

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

## 4. FINANCE COSTS

| | Six months ended 30 June 2011 RMB'000 (Unaudited) | 2010 RMB'000 (Unaudited) |
|---|---|---|
| Interest on a bank loan wholly repayable within five years | **–** | 1,371 |

## 5. PROFIT BEFORE TAX

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

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Cost of inventories sold | **102,446** | 140,567 |
| Depreciation | **2,051** | 1,381 |
| Amortisation of lease prepayments for land use rights | **28** | 28 |
| Amortisation of intangible assets* | **121** | 82 |
| Minimum lease payments under operating leases: | | |
| Land and buildings | **–** | 210 |
| Auditors' remuneration | **423** | 400 |
| Advertising and promotion expenses | **17,640** | 59,867 |
| Employee benefit expenses (including directors' emoluments): | | |
| Wages, salaries and staff welfare | **15,156** | 11,109 |
| Retirement benefit contributions | **961** | 490 |
| | **16,117** | 11,599 |

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

## 6. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2011 (six months ended 30 June 2010: nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

The Company's subsidiary, Ausnutria Dairy (China) Co., Ltd. ("Ausnutria China"), is subject to enterprise income tax ("EIT") at the statutory tax rate of 15% (2010: 12.5%) during the period under the current PRC income tax laws.

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

## 6. INCOME TAX (continued)

On 23 May 2011, Ausnutria China obtained a certification (the "Certification") from Hunan Provincial Science & Technology Department, Hunan Provincial Financial Department, Hunan Provincial State Tax Bureau and Hunan Provincial Local Tax Bureau, pursuant to which, Ausnutria China was designated as a High-tech Enterprise from 2010, whose Certification is valid for a period of three years. Therefore, Ausnutria China was granted a preferential EIT tax rate of 15% for the three years ending 31 December 2012.

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Current – PRC | **12,553** | 4,686 |
| Deferred tax | **(2,329)** | (66) |
| | **10,224** | 4,620 |

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

**30 June 2011**

| | **Hong Kong** | | **Mainland China** | | **Total** | |
|---|---|---|---|---|---|---|
| | **RMB'000** | **%** | **RMB'000** | **%** | **RMB'000** | **%** |
| Profit/(loss) before tax | **(2,852)** | | **67,815** | | **64,963** | |
| Income tax at the statutory income tax rate | **(471)** | **16.5** | **16,954** | **25.0** | **16,483** | **25.4** |
| Tax effects on preferential tax rates | **–** | **–** | **(6,782)** | **(10.0)** | **(6,782)** | **(10.5)** |
| Expenses not deductible for tax purpose | **–** | **–** | **52** | **0.1** | **52** | **0.1** |
| Tax losses not recognised | **471** | **(16.5)** | **–** | **–** | **471** | **0.7** |
| Tax charged at the Group's effective rate | **–** | **–** | **10,224** | **15.1** | **10,224** | **15.7** |

30 June 2010

| | Hong Kong | | Mainland China | | Total | |
|---|---|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Profit/(loss) before tax | (3,421) | | 67,691 | | 64,270 | |
| Income tax at the statutory income tax rate | (564) | 16.5 | 16,923 | 25.0 | 16,359 | 25.5 |
| Tax effects on preferential tax rates | – | – | (8,461) | (12.5) | (8,461) | (13.2) |
| Tax refunds | – | – | (5,692) | (8.4) | (5,692) | (8.9) |
| Expenses not deductible for tax purpose | – | – | 837 | 1.2 | 837 | 1.3 |
| Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries | – | – | 1,013 | 1.5 | 1,013 | 1.6 |
| Tax losses not recognised | 564 | (16.5) | – | – | 564 | 0.9 |
| Tax charged at the Group's effective rate | – | – | 4,620 | 6.8 | 4,620 | 7.2 |

## 7. INTERIM DIVIDENDS

The board of the Company did not recommend the payment of any interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: nil).

## 8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,007,527,580 (six months ended 30 June 2010: 1,045,000,000) in issue during the period.

**Earnings**

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | **54,739** | 59,650 |

**Shares**

| | Six months ended 30 June | |
|---|---|---|
| | **2011** | 2010 |
| | **(Unaudited)** | (Unaudited) |
| Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation | **1,007,527,580** | 1,045,000,000 |

No adjustment has been made to the basic earnings per share presented for the six months ended 30 June 2011 and 2010 in respect of dilution as there were no diluting events in existence during the relevant periods.

## 9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2011, the Group acquired buildings, machinery, office equipment, motor vehicle and construction in progress with an aggregate cost of approximately RMB5,074,000 (six months ended 30 June 2010: RMB4,674,000).

As at 30 June 2011, no property, plant and equipment was pledged (31 December 2010: nil).

## 10. LEASE PREPAYMENTS FOR LAND USE RIGHTS

As at 30 June 2011, the Group's lease prepayments for land use rights of RMB2,228,000 (31 December 2010: RMB2,256,000). No land use rights were pledged (31 December 2010: nil).

## 11. LONG-TERM PREPAYMENTS

The balance as at 30 June 2011 mainly included the prepayments made for acquiring Hyproca Dairy Group B.V. from Dutch Dairy Investments B.V. amounting to RMB128,263,000 (31 December 2010: nil) and purchasing an office building from Changsha Xin Da Xin Real Estate Management Co., Ltd. ("Xin Da Xin"), a fellow subsidiary of the Group amounting to RMB23,113,000 (31 December 2010: RMB23,108,000).

## 12. INVENTORIES

| | **30 June 2011 RMB'000 (Unaudited)** | 31 December 2010 RMB'000 (Audited) |
|---|---|---|
| Raw materials | **90,930** | 46,555 |
| Finished goods | **24,767** | 26,150 |
| Others | **4,703** | 4,258 |
| Total | **120,400** | 76,963 |

## 13. TRADE AND BILLS RECEIVABLES

The details of trade receivables and bills receivable are as follows:

| | **30 June 2011 RMB'000 (Unaudited)** | 31 December 2010 RMB'000 (Audited) |
|---|---|---|
| Trade receivables | **100,086** | 89,550 |
| Bills receivables | **20,990** | 31,413 |
| Total | **121,076** | 120,963 |

The Group normally allows a credit period of not more than 1 year to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

## 13. TRADE AND BILLS RECEIVABLES (continued)

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

| | **30 June 2011 RMB'000 (Unaudited)** | 31 December 2010 RMB'000 (Audited) |
|---|---|---|
| Within 3 months | **63,822** | 68,610 |
| 3 to 6 months | **18,810** | 14,156 |
| Over 6 months | **17,454** | 6,784 |
| Total | **100,086** | 89,550 |

## 14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **30 June 2011 RMB'000 (Unaudited)** | 31 December 2010 RMB'000 (Audited) |
|---|---|---|
| Prepayments | **44,826** | 75,735 |
| Due from a related party (note 24(b)) | **–** | 403 |
| Others | **9,296** | 4,596 |
| Total | **54,122** | 80,734 |

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to entities which have no recent history of default.

## 15. HELD-TO-MATURITY INVESTMENT

The Group entered into an entrusted fund management agreement on 24 March 2010 with Hunan Trust and Investment Co., Ltd. ("Hunan Trust"), an independent third party, pursuant to which, Ausnutria China entrusted Hunan Trust a fund of RMB200,000,000 to purchase an entrusted loan (the "Entrusted Loan") from Hunan Provincial Expressway Construction and Development Co., Ltd., an independent third party. The Entrusted Loan was unsecured and bore an interest rate of 5% per annum and matured on 17 March 2011. The Entrusted Loan was classified as a held-to-maturity investment and was measured at amortised cost using the effective interest rate method. On 29 April 2011, the Group entered into another entrusted fund management agreement with Yunnan International ("Yunnan Trust"), an independent third party, pursuant to which, Ausnutria China entrusted Yunnan Trust a fund of RMB200,000,000 to purchase an entrusted loan (the "New Entrusted Loan") from China Merchants Bank (Changsha), an independent third party. The New Entrusted Loan is unsecured and bears interest at an expected rate of return of approximate 5.7% per annum and will mature on 25 April 2012. The New Entrusted Loan is classified as a held-to-maturity investment and is measured at amortised cost as at 30 June 2011.

## 16. CASH AND CASH EQUIVALENTS

| | 30 June 2011 RMB'000 (Unaudited) | 31 December 2010 RMB'000 (Audited) |
|---|---|---|
| Cash and bank balances | **438,403** | 638,984 |

As at 30 June 2011, the Group's cash and bank balances denominated in RMB amounted to RMB318,614,000 (31 December 2010: RMB255,446,000). The RMB is not freely convertible in the international market. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

## 17. TRADE PAYABLES

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

| | 30 June 2011 RMB'000 (Unaudited) | 31 December 2010 RMB'000 (Audited) |
|---|---|---|
| Within two months | **13,270** | 7,351 |
| Over two months | **1,095** | 1,433 |
| Total | **14,365** | 8,784 |

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

## 18. OTHER PAYABLES AND ACCRUALS

| | 30 June 2011 RMB'000 (Unaudited) | 31 December 2010 RMB'000 (Audited) |
|---|---|---|
| Advances from customers | 36,517 | 11,906 |
| Other tax payables | 11,893 | 19,326 |
| Deposits | 7,280 | 7,055 |
| Accrued salaries and welfare | 6,273 | 7,939 |
| Others | 8,318 | 13,943 |
| Total | 70,281 | 60,169 |

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

## 19. DIVIDEND PAYABLE

Dividend payable represented the 2010 final dividend approved during the annual general meeting of shareholders of the Company in May 2011. The dividend payable was fully paid by the Company in July 2011.

## 20. SHARE CAPITAL

**Shares**

| | 30 June 2011 RMB'000 (Unaudited) | 31 December 2010 RMB'000 (Audited) |
|---|---|---|
| Authorised: | | |
| 1,500,000,000 ordinary shares of HK$0.1 each | 132,152 | 132,152 |
| Issued and fully paid | | |
| 987,160,000 (2010: 1,045,000,000) ordinary shares of HK$0.1 each | 86,971 | 92,066 |

The Company repurchased 4,046,000 shares and 53,794,000 shares, at prices ranging from HK$2.38 to HK$2.85 per share in January and February 2011, respectively. The total cost was HK$144,489,000 (equivalent to RMB128,564,000) and the shares repurchased have been cancelled.

## 21. CONTINGENT LIABILITIES

As at 30 June 2011, the Group did not have any significant contingent liabilities (31 December 2010: nil).

## 22. OPERATING LEASE ARRANGEMENTS

**As lessee**

As at 30 June 2011, the Group had the following total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **30 June 2011 RMB'000 (Unaudited)** | 31 December 2010 RMB'000 (Audited) |
|---|---|---|
| Within one year | – | 402 |

## 23. COMMITMENTS

As at 30 June 2011, the Group did not have any significant commitments (31 December 2010: nil).

## 24. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the interim condensed consolidated financial statements, the Group had the following material transactions with related parties during the six months ended 30 June 2011:

| | Notes | **Six months ended 30 June** | |
|---|---|---|---|
| | | **2011 RMB'000 (Unaudited)** | 2010 RMB'000 (Unaudited) |
| Associates: | | | |
| Sales of merchandises | (i) | **21,107** | – |
| Fellow subsidiaries: | | | |
| Purchase of merchandise from Hunan Aubrand Food Co., Ltd. ("Aubrand") | (ii) | – | 1,312 |
| Office rental expense to Xin Da Xin | (iii) | – | 210 |
| Provision of a guarantee to the Group | (iv) | – | 80,000 |

Notes:

(i) The sales to associates were made according to mutually agreed terms.

(ii) The Group purchased olive oil of RMB1,312,000 from Aubrand as benefits to the employees for the six months ended 30 June 2010. The sales prices were determined by reference to sales prices to major independent third party customers.

(iii) The Group rented certain premises of an office building located in Changsha, the PRC, from Xin Da Xin in 2010. In December 2010, the Group signed a property purchase agreement with Xin Da Xin to purchase that property. No rental fees in respect of that property were paid during the six months ended 30 June 2011.

(iv) As at 30 June 2010, the Group was granted a line of credit of RMB80,000,000 by Bank of China. The line of credit was guaranteed by Xin Da Xin. The Group did not utilise any bank facility as at 30 June 2011.

## 24. RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

| | Note | 30 June 2011 RMB'000 (Unaudited) | 31 December 2010 RMB'000 (Audited) |
|---|---|---|---|
| Trade receivables: | | | |
| Associates | | 9,119 | 4,019 |
| Xin Da Xin | | 9 | 1 |
| Prepayments, deposits and other receivables: | | | |
| Aubrand | | – | 403 |
| Long term prepayment: | | | |
| Xin Da Xin | (i) | 23,113 | 23,108 |
| Other payables and accruals: | | | |
| Advance from associates | | 8,453 | – |

Note:

(i) In December 2010, the Group signed a property purchase agreement with Xin Da Xin to purchase an office building located in Changsha, the PRC. The price was determined with reference to an independent valuer's valuation report. As at 30 June 2011, Xin Da Xin was in the process of transferring the title of the property to the Group.

(c) Compensation of key management personnel of the Group

| | Six months ended 30 June | |
|---|---|---|
| | 2011 RMB'000 (Unaudited) | 2010 RMB'000 (Unaudited) |
| Salaries, allowances and benefits in kind | 1,149 | 635 |
| Retirement benefit contributions | 47 | 10 |
| Total compensation paid to key management personnel | 1,196 | 645 |

## 25. OPERATING SEGMENT INFORMATION

For management purposes, the Group has a single operating and reportable segment-the production, marketing and distribution of high-end and premium-priced paediatric nutrition products in the PRC (including Hong Kong and Macau). All of the Group's revenue from external customers and operating profit are generated from this single segment. As at 30 June 2011, all of the Group's business and operational assets were located in the PRC. None of the Group's sales to a single external customer amounted to 10% or more of the Group's revenue during the six months ended 30 June 2011 and 2010.

## 26. EVENTS AFTER THE REPORTING PERIOD

On 3 July 2011, Ausnutria Dairy (Dutch) Coöperatief U.A., a wholly-owned subsidiary of the Company, ("Ausnutria Dairy"), Dutch Dairy Investments B.V. ("DDI"), the shareholders of DDI and Hyproca Dairy Group B.V. ("Hyproca Dairy") entered into a subscription agreement and a shareholders' agreement in relation to the subscription of 175,000 new shares in Hyproca Dairy by Ausnutria Dairy at a consideration of Euro 6,282,500 (the "Subscription"). On 19 July 2011, pursuant to an acquisition agreement and a shareholders' agreement entered into among the Company, Ausnutria Dairy, DDI, shareholders of DDI and Hyproca Dairy, DDI agreed to sell and Ausnutria Dairy agreed to purchase 284,000 shares in Hyproca Dairy at a consideration of Euro 10,369,000 (the "Acquisition"). Upon completion of the Subscription and the Acquisition, the Group will own 51% of the total issued share capital of Hyproca Dairy. Further details of the Subscription and the Acquisition are set out in the announcements of the Company dated 4 July 2011 and 20 July 2011, respectively.

## 27. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Interim Condensed Consolidated Financial Statements were approved and authorised for issue by the board of directors on 26 August 2011.