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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)

ANNOUNCEMENT OF INTERIM RESULT FOR THE SIX MONTHS ENDED 30 JUNE 2011

The board (the "Board") of directors (the "Directors") of Ausnutria Dairy Corporation Ltd (the "Company") and its subsidiaries (collectively referred to as the "Group") is pleased to announce the unaudited financial results of the Group for the six months ended 30 June 2011 together with comparative figures for the corresponding period in 2010.

The interim financial results are unaudited but have been reviewed by the Company's independent auditor, Ernst & Young, and the Audit Committee.

FINANCIAL HIGHLIGHTS

The Group's revenue amounted to approximately RMB219,030,000 for the six months ended 30 June 2011, representing a decrease of approximately RMB75,520,000, or approximately 25.6% as compared to approximately RMB294,550,000 for the six months ended 30 June 2010.

The profit attributable to owners of the parent for the six months ended 30 June 2011 was approximately RMB54,739,000, representing a decrease of approximately RMB4,911,000, or approximately 8.2% as compared to approximately RMB59,650,000 for the six months ended 30 June 2010.

The earnings per share of the Company attributable to ordinary equity holders of the parent amounted to approximately RMB5.43 cents for the six months ended 30 June 2011 as compared to approximately RMB5.71 cents for the six months ended 30 June 2010.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2011

	Notes	2011 RMB'000 (Unaudited)	2010 RMB'000 (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 COMPREHENSIVE INCOME:			
Exchange difference on translating foreign operations		**(600)**	170
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**54,139**	59,820
Profit for the period 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		**41,184**	38,161
Lease prepayments for land use rights		**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	9	**154,106**	23,108
Total non-current assets		**205,041**	72,008
CURRENT ASSETS			
Inventories		**120,400**	76,963
Trade and bills receivables	10	**121,076**	120,963
Prepayments, deposits and other receivables		**54,122**	80,734
Held-to-maturity investment		**200,000**	200,000
Tax recoverable		**6,679**	14,973
Cash and cash equivalents		**438,403**	638,984
Total current assets		**940,680**	1,132,617
CURRENT LIABILITIES			
Trade payables	11	**14,365**	8,784
Other payables and accruals		**70,281**	60,169
Dividend payable	12	**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	13	**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

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 13)	**Share premium**	**Capital reserve***	**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 13)	(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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 June 2011

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, 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 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 relevant effective PRC income tax laws and regulations, newly established foreign-invested enterprises that were engaged in manufacturing activities with an operation period of 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.

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, whose certification is valid for a period of three years. Therefore, Ausnutria China was granted a preferential EIT tax rate of 15% hereafter.

	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

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. 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 land use rights 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).

10. TRADE AND BILLS RECEIVABLES

The details of trade receivables and bills receivables 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.

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

11. 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
	14,365	8,784

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

12. 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.

13. 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.

14. OPERATING SEGMENT INFORMATION

For management purposes, the Group has a single operating and reportable segment – the production, marketing and distribution of high-end and premium paediatric nutrition products in the PRC (including Hong Kong and Macau). All of the Group's revenue from external customers and operating profit are generated from this single segment. 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 (six months ended 30 June 2010: nil).

15. 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, representing approximately 19.44% of its enlarged issued capital, by Ausnutria Dairy at a consideration of Euro6,282,500 (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, Ausnutra Dairy agreed to purchase 284,000 shares in Hyproca Dairy, representing approximately 31.56% of its enlarged issued share capital, from DDI, at a consideration of Euro10,369,000 (the "Acquisition"). Upon completion of the Subscription and the Acquisition, the Group will own 51% of the enlarged issued share capital of Hyproca Dairy. Further details of the Subscription and the Acquisition are set out in the announcement of the Company dated 4 July 2011 and 20 July 2011, respectively.

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 approximately by 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 sustained its established business strategy and continued to explore for 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.. The first stage of the investment in Hyproca Dairy Group B.V. has been completed with approximately 19.44% of its share being acquired. Transaction regarding the further investment in 31.56% of its shares is in progress. Besides, since last year, the Group has commenced the restructuring of its sales and distribution system, 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 aim 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 our 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 customers 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 significantly dropped 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.

BRANDING AND MARKETING

Since its establishment, the Group has been devoting to the promotion of the brand "Ausnutria", which has been accredited as "China Wellknown Trademark" in early 2010 by the State Administration for Industry and Commerce of the PRC in relation to trademark awareness.

During the period under review, the Group succeeded in launching various TV programs for the advertising of Ausnutria products, including, on "Day Day Up" TV program, which is considered to have the highest viewership rate in China, and on 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 Group B.V. ("Hyproca"), 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 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.

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), 湖南省國家税務局 (State Tax Bureau of Hunan Province) and 湖南省地方税務局 (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 goal is 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 goal 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 customers 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 acquisition of 51% equity interests in Hyproca. Hyproca 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. 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 Dairy"), Lypack Holding B.V. ("Lypack Holding"), HB Food Group B.V. ("HB Food") and Hyproca Lyempf B.V. ("Hyproca Lyempf").

The history of Hyproca Dairy goes back to 1897 when its first factory was established. The factory of Hyproca Dairy forms the basis of the Hyproca Group. The factory of Hyproca Dairy 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.

Besides, the Hyproca Group had completed the 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 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 is 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 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）.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 as the acquisition of Hyproca (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 Listing Rules of The Stock Exchange of Hong Kong Limited (the "Listing Rules") 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 announcement, save for the Acquisition, the Group had 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 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).

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 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	**Utilised**	**Balance as at 30 June 2011**
	HK$'000	*HK$'000*	*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 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.

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 listed 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

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).

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 under review.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has fully complied with the code provisions as 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.

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.

PUBLICATION OF INTERIM REPORT

The 2011 Interim Report of the Company, which contains the detailed results and other information of the Company required pursuant to Appendix 16 to the Listing Rules, will be dispatched to shareholders of the Company and published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.ausnutria.com.hk in due course. This announcement can also be accessed on the above websites.

By order of the Board
Ausnutria Dairy Corporation Ltd
Wu Yueshi
Chairman

Changsha City, China, 26 August 2011

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Wu Yueshi, Mr. Yan Weibin, Mr. Chen Yuanrong and Ms. Ng Siu Hung and three independent non-executive Directors, namely Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong.