Global Dairy Holdings Limited
環球乳業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 01007)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL HIGHLIGHTS

- Our revenue for the year ended 31 December 2010 amounted to RMB921.9 million representing an increase of RMB411.9 million or 80.8% from revenue of RMB510.0 million for the year ended 31 December 2009.
- Our profit attributable to shareholders for the year ended 31 December 2010 amounted to RMB260.6 million representing an increase of RMB127.1 million or 95.2% from profit attributable to shareholders for the year ended 31 December 2009 in the amount of RMB133.5 million.

The board of directors (the "Directors") (the "Board") of Global Dairy Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 together with the comparative figures for the corresponding period in 2009 as follows:

	Notes	**Year ended 31 December 2010** *RMB'000*	Year ended 31 December 2009 *RMB'000*
Revenue	4	**921,886**	510,035
Cost of sales		**(443,655)**	(274,137)
Gross profit		**478,231**	235,898
Other gains and losses	5	**(968)**	6,797
Selling and distribution expenses		**(44,276)**	(18,934)
Administration expenses		**(51,717)**	(19,134)
Finance costs	6	**(14,672)**	(9,258)
Profit before taxation	7	**366,598**	195,369
Income tax expenses	8	**(106,010)**	(61,900)
Profit and total comprehensive income		**260,588**	133,469
Earnings per share — Basic *(RMB)*	10	**0.333**	0.242

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 31 December 2010** *RMB'000*	As at 31 December 2009 *RMB'000*
Non-current assets			
Property, plant and equipment		**526,894**	540,993
Prepaid lease payments		**38,451**	39,555
Intangible assets		**11,535**	13,055
Deposit for the acquisition of property plant and equipment		**—**	3,135
Deferred tax assets		**3,441**	—
		580,321	596,738
Current assets			
Inventories		**20,219**	24,449
Trade and other receivables	11	**15,711**	24,205
Prepaid lease payments		**847**	847
Bank balances and cash		**1,265,224**	183,972
		1,302,001	233,473
Current liabilities			
Trade and other liabilities	12	**111,488**	66,600
Income tax liabilities		**56,868**	32,691
Borrowings		**—**	302,275
Subscription money received		**—**	102,275
		168,356	503,841
Net current assets (liabilities)		**1,133,645**	(270,368)
Non-current liabilities			
Deferred tax liabilities		**22,960**	23,898
Borrowings		**100,000**	—
		122,960	23,898
Net assets		**1,591,006**	302,472
Capital and reserves			
Share capital		**9**	—
Reserves		**1,590,997**	302,472
		1,591,006	302,472

1. CORPORATION INFORMATION, GROUP RESTRUCTURING AND BASIS OF PRESENTATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 15 October 2009. The authorised share capital of the Company is HK$380,000 divided into 38,000,000,000 ordinary shares of HK$0.00001 each. The registered office of the Company is Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111 Cayman Islands. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 October 2010.

Global Milk Products Pte. Ltd. ("Global Milk Singapore"), a subsidiary of the Company, was incorporated on 15 September 2006 as a private limited company in Singapore and allotted and issued one ordinary share to a third party (the "Third Party"). On 8 October 2007, the Third Party transferred the one ordinary share in Global Milk Singapore to Mr Zhao Yu ("Mr Zhao"), the controlling shareholder of the Company. On 25 July 2008, Global Milk Singapore acquired the entire equity interest of Da Qing Dairy Ltd.（大慶乳品廠有限責任公司）("Daqing Dairy") and further, on 16 November 2009, Daqing Dairy acquired the entire equity interest of Heilongjiang Chang Qing Dairy Products Co., Ltd.（黑龍江常慶乳業有限責任公司）("Changqing Dairy").

Pursuant to the group reorganisation (the "Group Reorganisation") of the Group to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the Group on 15 October 2009 by interspersing the Company between Global Milk Singapore and Mr Zhao. Further details of the Group Reorganisation can be found in the Company's prospectus dated 15 October 2010 (the "Prospectus").

The consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 December 2009 have been prepared on the basis as if the Company had always been the holding company of the companies now comprising the Group throughout the year ended 31 December 2009, or since the respective dates of incorporation of the relevant entity, where there is a shorter period.

The Company acts as an investment holding company of the Group. The Group is principally engaged in the manufacture, marketing and sales of dairy products in the Peoples' Republic of China (the "PRC").

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new and revised standards, amendments and interpretations issued by the International Accounting Standards Board ("IASB"):

IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 39 (Amendment)	Eligible Hedged Items
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (Revised)	Business Combinations
IFRIC — INT 17	Distributions of Non-cash Assets to Owners

The application of the above new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

The Group has not early adopted the following new and revised standards, amendments or interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs 2010[1]
IFRS 1 (Amendments)	Limited Exemption from Comparative IFRS7 Disclosures for First-time Adopters[2]
IFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[3]
IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[3]
IFRS 9	Financial Instruments[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 32 (Amendments)	Classification of Rights Issues[7]
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 July 2011
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 February 2010

The Directors anticipate that the application of these new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

4. REVENUE AND SEGMENT INFORMATION

(a) Revenue

Revenue represents the net amounts received and receivable for sales of goods to customers during the year.

(b) Segment information

The Group operates and manages its business as a single segment that includes primarily the manufacture and sales of milk powder products and ice cream products. The Group's chief operating decision maker has been identified as the Chief Executive Officer, who reviews revenue analysis by major products and the profit of the Group for the year when making decisions about allocating resources and assessing performance of the Group. As no other discrete financial information is available for assessment of performance of different products, no segment information is presented.

Information about products

Analysis of revenue

The following table sets forth a breakdown of the Group's revenue by major products during the year:

	2010	2009
	RMB'000	*RMB'000*
Revenue from:		
Sales of milk powder products		
— whole milk	**48,320**	61,671
— formula milk	**851,845**	431,605
	900,165	493,276
Sales of ice cream products	**21,721**	16,759
	921,886	510,035

5. OTHER GAINS AND LOSSES

	Year ended 31 December 2010	Year ended 31 December 2009
	RMB'000	*RMB'000*
Interest income from		
— Changqing Dairy	**—**	8,088
— Others	**971**	406
Foreign exchange (losses) gains	**(1,349)**	1,308
Loss on disposals of property plant and equipment	**(590)**	(366)
Others	**—**	(2,639)
	(968)	6,797

6. FINANCE COSTS

	Year ended 31 December 2010 *RMB'000*	Year ended 31 December 2009 *RMB'000*
Finance costs comprises:		
Interest on bank borrowings wholly repayable with five years	**5,815**	9,025
Interest on loan from Investors	**8,857**	233
	14,672	9,258

7. PROFIT BEFORE TAXATION

	Year ended 31 December 2010 *RMB'000*	Year ended 31 December 2009 *RMB'000*
Profit before taxation has been arrived at after charging:		
Staff cost (including Directors):		
— Salaries and wages	**15,368**	7,865
— Retirement benefit scheme contributions	**1,325**	568
Depreciation and amortisation:		
— Property plant and equipment	**26,338**	19,195
— Intangible assets	**1,520**	1,520
Release of prepaid lease payments	**1,104**	655
Cost of inventory recognised as an expenses	**443,655**	274,137
Research and development expenses	**163**	104
Auditors' remuneration	**1,380**	100

8. INCOME TAX EXPENSES

	Year ended 31 December 2010 *RMB'000*	Year ended 31 December 2009 *RMB'000*
Income tax expenses comprise:		
Current PRC enterprise income tax	**110,389**	56,849
Deferred taxation	**(4,379)**	5,051
	106,010	61,900

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong for the year.

The statutory tax rate of Global Milk Singapore for the year ended 31 December 2010 was 17% (2009: 17%). No provision for Singapore income tax has been made as the Group did not derive any taxable income in Singapore for the year ended 31 December 2010 (2009: nil).

The statutory tax rate of Daqing Dairy and Changqing Dairy, the Company's PRC subsidiaries for the year ended 31 December 2010 was 25% (2009: 25%).

9. DIVIDENDS

The Board has decided not to issue a dividend for the financial year ended 31 December 2010 (2009: nil).

10. EARNINGS PER SHARE

The calculation of the earnings per share for the year ended 31 December 2010 is based on the profit attributable to the equity holders of the Company for the year of approximately RMB260,558,000 (2009: RMB133,469,000) and on the weighted average number of 781,507,977 shares (2009: 551,000,727 shares) in issue during the year.

The weighted average number of shares for the purpose of calculating the basic earnings per share for the two years ended 31 December 2010 have been determined as if the Group Reorganisation had been effective on 8 October 2007 and the effect of the 1,000-for-one share subdivision and capitalisation issue are adjusted retrospectively.

There were no potential dilutive shares in existence during the two years ended 31 December 2010 and therefore, no diluted earnings per share amounts have been presented.

11. TRADE AND OTHER RECEIVABLES

The trade receivables as at 31 December 2009 and 31 December 2010 comprise amounts receivable from the sales of goods.

No interest is charged on the trade receivables.

Before accepting any new customer, the Group gathers and assesses the credit information of the potential customer in considering the customer's quality and determining the credit limits for that customer.

The Group generally allows an average credit period of 30 days to its trade customers. An aged analysis of the trade receivables of the Group as at the end of the reporting period, based on the invoice date is as follows:

	As at 31 December 2010 *RMB'000*	As at 31 December 2009 *RMB'000*
Within 30 days	**10,525**	12,804
Over 30 days but within one year	**—**	49
	10,525	12,853

12. TRADE AND OTHER PAYABLES

The Group's trade payables principally comprise amounts outstanding for trade purchases. Payment terms with suppliers are on an average credit period of 30 days from the time when the goods are received from suppliers.

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

	As at 31 December 2010 *RMB'000*	As at 31 December 2009 *RMB'000*
Within 30 days	**5,955**	3,244
Over 30 days but within one year	**—**	2,273
Over one year	**—**	37
	5,955	5,554

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Growth in distribution network

The Group's sales expansion mainly comes from the growth of its distribution network. The number of distributors grew from 67 in 2009 to 143 direct distributors in 2010. The strategy of using a direct single tier distribution model with effect from 2009, paid off as the percentage of revenue contributed by distributors increased from 69.1% in 2009 to 85.5% in 2010. This strategy allows channel profits to be shared by fewer participants thereby increasing the motivation of distributors and their channels to promote our products.

The Group has distribution presence in 21 provinces and one municipality in the PRC. Our distributors are typically responsible for sales in the cities in which they are located in their immediate neighbouring cities. As such, the growth in our distribution network comes from securing committed distributors in more cities across the PRC. The revenue growth in 2010 remains broad based, with the top five distributors accounting for approximately 7.2% (2009: 12.0%) of total revenue.

New products

During the year ended 31 December 2010, the Group launched a new brand of formula milk powder under the Shi Jia brand name during the second quarter. The Shi Jia brand has two series, a premium paediatric milk formula for babies and a premium post natal milk formula for mothers. Shi Jia brand has achieved revenues of RMB43.4 million (or 4.7% of total revenue) in its first year of launch. In the coming year, the Group will leverage on its previous expertise in developing new brands like Emilon (launched in 2007 and is the major contributor to revenue at present) to further refine the brand and sales strategy of Shi Jia brand in the coming years.

The Group also introduced a new series under our Emilon brand known as "Youzhi" during the second quarter of 2010. The Youzhi series is currently the most competitively priced product in the Emilon brand and this will allow the Group to compete with smaller regional competitors more effectively especially in third tier and below cities. Emilon Youzhi series achieved revenues of RMB140.2 million (or 15.2% of total revenue) in its first year of launch.

With a view to increase margins and compensate for increase in raw materials costs, the Group has also began the process of repackaging some of our products, changing the formulation and re-launching them. One key example is the rebranding of our sweetened whole milk powder to the Daqing Traditional Milk Powder that comes in convenient 25 gram sachets and that contains lower level of sugar to target health conscious consumers, launched in November 2010.

Vertical integration upstream

As part of the overall strategy to contain costs and reclaim margins in raw milk production currently enjoyed by our suppliers, the Group has commenced the development of dairy farms as disclosed in the Prospectus. The Group established a new wholly owned subsidiary, Wuchang Benniu Muye Co., Ltd（五常犇牛牧業有限公司）(“Wuchang Benniu”), to develop and operate the Wuchang farm. The progress of the Wuchang farm is on track and upon completion in early 2012, will comprise 10,000 heads of dairy cows that can yield approximately 42,000 tonnes of raw milk per annum.

Brand performance

The performance of the various brands of milk powder sold by the Group are analysed as follows:

	Year ended 31 Dec 2010				Year ended 31 Dec 2009			
	Revenue		**ASP**	**GM%**	Revenue		ASP	GM%
	RMB'000	*%*	***RMB/kg***	*%*	*RMB'000*	*%*	*RMB/kg*	*%*
Whole milk powder	**48,320**	**5.2%**	**24.5**	**3.6%**	61,671	12.1%	21.8	18.4%
Formula milk powder								
— Daqing series	**161,422**	**17.5%**	**36.0**	**33.8%**	122,936	24.1%	30.9	39.0%
— Emilon series	**647,028**	**70.2%**	**71.5**	**59.8%**	308,669	60.5%	78.6	59.3%
— Shi Jia series	**43,395**	**4.7%**	**152.5**	**71.8%**	—	—	—	—
Total milk powder	**900,165**	**97.6%**	**57.0**	**52.7%**	493,276	96.7%	45.9	49.1%

Whole milk powder

The whole milk powder business lines comprise mainly industrial whole milk powder in 25kg packaging that we sell to other dairy producers as well as sweetened whole milk powder for general purpose use that we sell to consumers through our distribution network and retail chain stores. Revenues from whole milk powder declined from RMB61.7 million in 2009 to RMB48.3 million in 2010 and its contribution to overall revenue fell from 12.1% in 2009 to 5.2% in 2010. This product segment commands the lowest margins among all our offerings and we typically produce whole milk powder for sale only when we have excess capacity and raw milk supplies. The increase in average selling price (“ASP”) from RMB21.8/kg in 2009 to RMB24.5/kg in 2010 is not sufficient to offset the increase in price of raw milk, resulting in gross margin (“GM”) erosion from 18.4% in 2009 to 3.6% in 2010.

Formula milk powder — Daqing

The revenue from the sales of Daqing series increased from RMB122.9 million in 2009 to RMB161.4 million in 2010. During the year under review, ASP increased from RMB30.9/kg in 2009 to RMB36.0/kg in 2010 as a result of price adjustments. However, the price increase is not sufficient to totally offset the increase in the raw material costs resulting in a decline in gross margins from 39.0% in 2009 to 33.8% in 2010. Daqing series is targeted at the lower middle income tier consumers and is the most price sensitive brand in our line up. As such, management emphasis more on developing our higher margin brands of Emilon and Shi Jia, resulting in the increase of revenue contribution by these brands (in aggregate) from 60.5% in 2009 to 74.9% in 2010.

Formula milk powder — Emilon

The Emilon brand of formula comprises three series of baby formula milk with different price points targeted at different consumer groups as well as different geographical markets with different levels of disposable income. Together these series give the Group depth in its product offerings, enabling the Group to compete more effectively against smaller regional competitors.

Revenue from sales of Emilon increased from RMB308.7 million in 2009 to RMB647.0 million in 2010. The growth in Emilon series is mainly a result of the following factors:

a) Expansion of our distribution network, especially in areas outside of the north-eastern provinces where the Emilon brand is more popular;

b) Success of our product strategy and positioning of our Emilon brand; and

c) The launch of our Youzhi series during the second quarter of 2010. Youzhi series is currently the most competitively priced product in the Emilon brand and this will allow the Group to compete with smaller regional competitors more effectively especially in third tier and below cities. Emilon Youzhi series achieved revenues of RMB140.2 million (or 15.2% of total revenue) in its first year of launch.

The launch of Youzhi series has effectively reduced the average ASP of the Emilon brand as a whole from RMB78.6/kg in 2009 to RMB71.5/kg in 2010 due to its lower selling prices. However, gross margins have increased from 59.3% in 2009 to 59.8% in 2010. This is mainly due to upward price adjustments as well as the fact that raw milk constitutes only 30% of the total cost of production of the Emilon brand as compared to approximately 50% and 80% for the Daqing brand and whole milk powder products respectively.

Formula milk powder— Shi Jia

The Shi Jia brand performed to the management's expectations, achieving revenues of RMB43.4 million (or 4.7% of total revenue) in its first year of launch. Shi Jia brand currently has the highest ASP of RMB152.5/kg and as well as gross margins of 71.8%. Given its product price point, Shi Jia brand is targeted at our premium consumers in the markets we operate in as well as in key second tier and coastal cities with higher disposable incomes.

FINANCIAL REVIEW

Our year ended 31 December 2010 compared to our year ended 31 December 2009

Revenue

Our revenue increased by 80.8% from RMB510.0 million for the year ended 31 December 2009 to RMB921.9 million for the year ended 31 December 2010. The increase in our revenue for the year ended 31 December 2010 was driven by a strong growth in our milk formula products across all ranges of our milk formula products by RMB406.9 million and the sales growth of our ice cream products by RMB5.0 million, which was offset by a decline of RMB13.4 million in our whole milk products.

The growth in revenue for the year ended 31 December 2010 is mainly due to the following factors:

(i) The growth in our distribution network from 67 in 2009 to 143 direct distributors in 2010;

(ii) Launch of new products like the Youzhi series under our Emilon brand and Shi Jia brand formula milk powder and post natal mother milk powder. These new products contribute RMB183.7 million in revenue or 20% of total revenue in 2010; and

(iii) The removal of capacity constrains faced in 2009 with the commencement of operations of our new 300 ton daily raw milk processing plant in Daqing.

The increase in revenue demonstrates the success of our product strategy as well as validated the effectiveness of our distribution model and brand building efforts through targeted advertising on China Central Television ("CCTV").

Cost of sales

Our cost of sales increased by RMB169.6 million or 61.9% from RMB274.1 million for the year ended 31 December 2009 to RMB443.7 million for the year ended 31 December 2010. The increase in our cost of sales for the year ended 31 December 2010 was lower than the increase in sales for the same period. This was mainly due to the change in product mix in favour of higher margin milk formula products such as our Emilon series and Shi Jia series, which resulted in a lower cost of sales incurred per dollar of sales.

Gross profits

Our gross profits increased by RMB242.3 million or 102.7% from RMB235.9 million for the year ended 31 December 2009 to RMB478.2 million for the year ended 31 December 2010. Our gross profit margins increased from 46.3% in the year ended 31 December 2009 to 51.9% in the year ended 31 December 2010 primarily due to the introduction of our Shi Jia series with relatively higher gross profit margin of 71.8% and the shift in our product series mix in favour of the higher gross profit margin milk formula products (Emilon series and Shi Jia series) from 60.5% of revenue as at 31 December 2009 to 74.9% of revenue as at 31 December 2010.

Other gains and losses

Our other losses for the year ended 31 December 2010 amounted to RMB1.0 million which comprised exchange losses of RMB1.3 million arising from exchange losses on a foreign currency denominated loan owing to Pre-IPO Investors that was repaid during the year and bank balances held in foreign currency, loss of disposal of property plant and equipment of RMB0.6 million, offset by interest income of RMB1.0 million.

Selling and distribution expenses

Details of selling and distribution expenses are:

	Year ended 31 December 2010 *RMB'000*	Year ended 31 December 2009 *RMB'000*
Staff and welfare cost	**4,031**	2,079
Freight and insurance	**6,774**	3,465
Advertising and promotion	**28,490**	11,422
Others	**4,981**	1,968
	44,276	18,934

Our selling and distribution expenses increased by RMB25.4 million or 134.4% from RMB18.9 million in the year ended 31 December 2009 to RMB44.3 million in the year ended 31 December 2010. The increase was mainly due to the increase in advertising and promotional expenses by RMB17.1 million as a result of the conduct of an advertising and marketing campaign on CCTV to increase brand awareness and to attract more potential distributors to our network. In addition, our staff and welfare cost increased by RMB2.0 million as we increased head counts to cater for the expansion of our distribution network and freight and insurance cost by RMB3.3 million as a result of increased revenues.

Administrative expenses

Details of administration expenses are:

	Year ended 31 December 2010	Year ended 31 December 2009
	RMB'000	*RMB'000*
Staff and welfare cost	**7,981**	5,629
Depreciation	**5,297**	3,462
Property usage taxes	**4,774**	2,259
Amortisation of trademarks	**1,520**	1,520
Professional fees related to the global offering	**21,570**	—
Others	**10,575**	6,264
	51,717	19,134

Our administrative expenses increased by RMB32.6 million or 170.7% from RMB19.1 million in the year ended 31 December 2009 to RMB51.7 million in the year ended 31 December 2010. The increase was primarily due the professional fees incurred in respect of the global offering exercise in October 2010 amounting to RMB21.6 million as well as the increase in administration staff costs, depreciation and additional property usage tax arising from Daqing Dairy amounting to RMB2.4 million, RMB1.8 million and RMB2.5 million, respectively.

Finance cost

Our finance cost increased by RMB5.4 million or 58.1% from RMB9.3 million in the year ended 31 December 2009 to RMB14.7 million in the year ended 31 December 2010. The increase was mainly due to increase in interest on loan from Pre-IPO Investors amounting to RMB8.9 million, offset by a decrease in the interest on bank borrowings as a result of lower outstanding bank loan balances in 2010 as compared to 2009.

Income tax expense

Our income tax expense increased by 71.2% from RMB61.9 million for the financial year ended 31 December 2009 to RMB106.0 million for the financial year ended 31 December 2010. This increase was primarily due to an increase in profit, which was partially offset by a decrease in the effective tax rate from 31.7% to 28.9% from the financial year ended 31 December 2009 to the financial year ended 31 December 2010 due to the fact that no provision was made for withholding tax on potential dividend distribution to its offshore holding company as management has decided to retain undistributed profits for the year ended 31 December 2010 for the purpose of expanding the business.

Profit for the year

Our profit for the year increased by 95.2% from RMB133.5 million for the financial year ended 31 December 2009 to RMB260.6 million for the financial year ended 31 December 2010, as a result of the factors discussed above, and net profit margin increased from 26.2% to 28.3%. Our Directors consider that our net profit margin is relatively high as a result of our ability to effectively control our selling and distribution costs as well as administrative costs.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

During the year ended 31 December 2010, except for the Group Reorganisation for the preparation of listing as described in the Prospectus and the incorporation of Wuchang Benniu with registered capital of RMB5.0 million, there were no material investments and acquisitions and disposals of subsidiaries.

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group intends to explore investment opportunities to commence the development of the second phase of our vertical integration plan that should see the Group achieve self sufficiency in raw milk supplies. As at the date of this announcement, we have not entered into any legally binding agreement or arrangement with respect to the upward integration opportunities mentioned above. The Group will make appropriate announcements on its plans as and when such plans materialise.

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGE OF ASSETS

As at 31 December 2010, the net assets of the Group amounted to approximately RMB1,591.0 million (2009: approximately RMB302.4 million); the current assets of the Group amounted to approximately RMB1,302.0 million (2009: approximately RMB233.5 million), of which approximately RMB1,265.2 million (2009: approximately RMB184.0 million) were cash and bank deposits.

The Group usually applies its cash flows generated internally to meet its operational needs. Following the fund raising of the global offering in October 2010, the Group has sufficient financial resources and liquidity that are sufficient to meet its daily business operations and future development.

As at 31 December 2010, there are no pledges on any of its assets of the Group.

CAPITAL STRUCTURE

The Company's capital structure only comprises ordinary shares. The movements in the Company's authorised and issued ordinary share capital during the period between 15 October 2009 (date of incorporation) and 31 December 2010 are as follows:

(a) The Company was incorporated in the Cayman Islands on 15 October 2009 with an authorised share capital of HK$380,000, divided into 38,000,000 ordinary shares of HK$0.01 each in the Company. On the date of incorporation, one share of HK$0.01 was allotted and issued fully paid at par to a third party, which was subsequently transferred to Mr Zhao.

(b) On 15 October 2009, Mr Zhao transferred his 100% shareholding in Global Milk Singapore to the Company pursuant to a share sale and purchase agreement dated the same date in consideration of the Company issuing 550 ordinary shares of HK$0.01 each in the Company, credited as fully paid, to Mr Zhao.

(c) On 18 November 2009, Mr Zhao transferred an aggregate of 57 ordinary shares of HK$0.01 each in the Company to Kenmoore Mezza9 Ltd. pursuant to a share transfer agreement dated 1 November 2009.

(d) On 3 February 2010, each ordinary share of HK$0.01 in the authorised and issued share capital of the Company was subdivided into 1,000 ordinary shares of HK$0.00001 (the "Share Subdivision") such that its resultant authorised share capital was HK$380,000 divided into 38,000,000,000 ordinary shares of HK$0.00001 each and its resultant issued share capital was HK$5.51 divided into 551,000 ordinary shares of HK$0.00001 each in the Company.

(e) On 4 February 2010, pursuant to an investment agreement dated 20 November 2009 (the "Investment Agreement") entered into among certain investors (the "Pre-IPO Investors"), Mr Zhao Chuan Wen, Mr Zhao and the Company, the Company issued an aggregate of 127,829 ordinary shares of HK$0.00001 each in the Company to the Pre-IPO Investors, for a consideration of S$21.0 million (equivalent to RMB102,275,000).

(f) Pursuant to a share subscription agreement dated 20 November 2009 entered into between the Company and Mr Zhao, on 4 February 2010, the Company issued an aggregate of 63,171 ordinary shares of HK$0.00001 each to Mr Zhao, for a consideration of RMB125,000,000.

(g) On 24 March 2010, pursuant to a second series funding agreement entered into between, among others, the Company and the Pre-IPO Investors, the Company issued an aggregate of 15,879 ordinary shares of HK$0.00001 each to the Pre-IPO Investors for a consideration of S$5.25 million (equivalent to RMB25,505,000).

(h) Pursuant to the written resolutions of all shareholders entitled to vote at general meetings of the Company, which were passed on 10 October 2010, an amount of approximately HK$7,571.22 standing to the credit of the share premium account of the Company was capitalised and applied to pay up in full at par a total of 757,122,121 new ordinary shares of HK$0.00001 each for allotment and issue to the shareholders of the Company whose names appeared on the register of members of the Company on 9 October 2010 (the "Capitalisation Issue") and details of which are set out in the paragraph headed "Further Information about the Group — Written resolutions of the Shareholders passed on 10 October 2010" in Appendix VI "Statutory and General Information" to the Prospectus.

(i) On 28 October 2010, the Company issued 252,620,000 new ordinary shares of HK$0.00001 each at issue price of HK$4.39 per ordinary share pursuant to the listing of the Company's shares.

All of the ordinary shares issued by the Company during the period subsequent to the date of incorporation of the Company rank pari passu with the then existing ordinary shares in all respects.

GEARING RATIO

As at 31 December 2010, the Group's current liabilities amounted to approximately RMB168.4 million (2009: approximately RMB503.8 million).

The net assets value per share of the Group was approximately RMB1.57 per share as at 31 December 2010 (2009: approximately RMB0.55 per share). The net asset value per share was computed based on 1,010,500,000 ordinary shares (2009: 551,000,727 shares) in issue as at 31 December 2010.

The Group's current ratio was approximately 7.7 (2009: approximately 0.5). Our gearing is computed based on total interest bearing indebtedness over total assets. The gearing ratio as at 31 December 2010 was approximately 5.3% (2009: approximately 36.4%) which was mainly due to a long term bank loan of RMB100.0 million (2009: RMB302.2 million).

INTEREST AND FOREIGN EXCHANGE RISK

During the year ended 31 December 2010, the Group did not have debt obligations with floating interest rates (2009: nil). Accordingly, the Group had no significant interest rate risk.

Substantially all of the Group's businesses are denominated in RMB, which is the Group's functional currency. As at 31 December 2010, the Group had bank balances of RMB9.9 million (2009: nil) denominated in HK$.

CREDIT RISK

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

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

COMMITMENTS

As at 31 December 2010, the Group had the following capital commitments:

	31 December 2010 *RMB'000*	31 December 2009 *RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment		
— contracted for but not provided in the consolidated financial statements	**11,189**	10,297
— authorised for but not contracted for	**298,580**	—
Total	**309,769**	10,297

On 19 November 2010, the Company made the following announcement (the "Announcement") that the Board has resolved on 18 November 2010 to approve, inter alia, the investment in and construction of a dairy farm (the "Group's Dairy Farm") by Changqing Dairy, an indirect wholly-owned subsidiary of the Company, in Erhe Township which is approximately 30 km north-east of Wuchang City centre, Heilongjiang Province, the PRC (the "Project").

The Company will use approximately HK$350.9 million of the net proceeds from the global offering to fund the Project which will comprise approximately RMB300 million for the acquisition of the land use rights of the requisite parcel of land (including fees payable for the grant of permission to occupy such land), the construction of the Group's Dairy Farm and the purchase of dairy cows. The Group will also invest approximately RMB40 million for the construction of a bio-organic fertilizers and bio-gas power generation facility for the Group's Dairy Farm.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group had no significant contingent liabilities (2009: nil).

USE OF PROCEEDS

As at 31 December 2010, the balance of the net proceeds of the fund raising by the Company in the global offering amounted to approximately RMB791.4 million were totally placed with reputable financial institutions for interest income.

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

Use of proceeds	**Allocated** *RMB'000*	**Utilisation** *RMB'000*	**Balance** *RMB'000*
1) Approximately 34.7% will be used for implementing our expansion plans on investments upstream in cattle farms and acquisitions of related production equipment and facilities;	308,841	(4,600)	304,241
2) Approximately 25.5% will be used for reinforcing and expanding of our distribution network;	226,959	—	226,959
3) Approximately 20.4% will be used for advertising, marketing and promotion of existing and new products;	181,567	(12,140)	169,427
4) Approximately 9.2% for repayment of loan extended by the Pre-IPO Investors to our Company (which is referred to as the Second Loan in the sub-section headed "Investment in the Company prior to the Global Offering" in the section headed "History, Reorganisation and Group Structure" in the Prospectus) and the interests accrued thereon;	81,883	(81,883)	—
5) Approximately 10.2% will be used for working capital and other general corporate purposes	90,784	—	90,784
Total	890,034	(98,623)	791,411

The Directors do not anticipate any change to its plan on the use of proceeds as stated in the Prospectus.

EMPLOYEES

As at 31 December 2010, the Group employed 545 (2009: 430) employees. The increase in the number of employees was due to the expansion of the Group's business to cope with business promotion and market exploration. The salary levels of employees are determined by their performance, qualifications, experience and contribution to the Group with reference to general market trend.

The total employee expenses of the Group including Directors' remuneration charged to the consolidated statement of comprehensive income for the year ended 31 December 2010 amounted to approximately RMB16.7 million (2009: approximately RMB8.4 million). The increase in total employee expenses was due to the increase in employees and salary increments adjusted in accordance with labour market trend.

PROSPECTS

Subsequent to the Melamine incident in 2008, the PRC government has introduced a number of regulations and measures which are aimed at controlling and improving food safety in the dairy products industry and for the purpose of regaining the confidence of consumers. In addition, the government has also introduced new production licensing requirements to drive consolidation within the dairy industry as well as introduced favourable incentives to encourage upstream integration among dairy producers. We believe these measures are favourable to the development of the industry in general and the Group in particular.

The Group has a successful track record in launching new products in the past and will continue to do so in order to increase our products' appeal across all segments of our target market. We have also increased our selling prices of our products to offset the consequences brought by the increase in the cost of the raw materials in early 2011. This should help us mitigate the effects from inflationary pressures expected in 2011.

Our growth in 2011 will be driven by the expansion of our distribution network via the selection and appointment of committed distributors in cities where we do not yet have a presence, with special emphasis on our key markets of 2nd tier, 3rd tier and below cities. For the Shi Jia brand, we have deployed a task force made up of experienced sales personnel to explore non traditional distribution channels within the 2nd tier cities and wealthy coastal cities on the eastern seaboard, building upon our initial success in penetrating several 2nd tier cities in 2010.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU IN RELATION TO THE PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2010 as set out in the preliminary announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

AUDIT FINANCIAL STATEMENTS

The Group's consolidated financial statements have been audited by the Group's external auditors, Deloitte Touche Tohmatsu and they have issued an unqualified opinion.

COMPLIANCE OF MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE")

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

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied fully with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules throughout the year.

AUDIT COMMITTEE

The Company has an audit committee (the "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 the 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 as assigned by the Board. The Audit Committee comprises 3 independent non-executive Directors, namely, Ms Chan Wah Man Carman (Chairman), Mr Cheung Hok Fung Alexander, and Mr Zhang Zhou. The Company's and the Group's financial statements for the year ended 31 December 2010 have been reviewed by the Audit Committee.

PUBLICATION OF ANNUAL REPORT

The 2010 annual 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.global-dairy.com.cn in due course. This announcement can also be accessed on the above websites.

By the order of the Board
Global Dairy Holdings Limited
Zhao Chuan Wen
Chairman

Hong Kong, 16 March 2011

As at the date of this announcement, the executive Directors are Mr Zhao Chuan Wen, Mr Zhao Yu, Mr Xia Yuan Jun, Mr Fu Chong and Mr Fong Pin Jan; and the independent non-executive Directors are Mr Cheung Hok Fung Alexander, Ms Chan Wah Man Carman and Mr Zhang Zhou.