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Making Life's Sweet Delights

徐福記國際集團

Hsu Fu Chi International Limited

http://www.hsufuchifoods.com

Hsu Fu Chi International Limited
Annual Report 2011

Annual Report 2011

Making Life's Sweet Delights

*Hsu Fu Chi has always
delighted its consumers
with the best,
original-tasting
confectionery.
It has sought to remain
the market leader,
offering more sophisticated
choices to consumers
while providing
healthier delights.*

CONTENTS

CORPORATE PROFILE

According to the annual survey of the National Bureau of Statistics of China in 2010, Hsu Fu Chi's Candy Products topped the sales for this product category again and extended its record to thirteen consecutive years since 1998.

BACKGROUND

Hsu Fu Chi was founded in China in 1992 by the Hsu brothers from Taiwan. Backed by 16 years of previous sales experience (1976 –1992), they forged new ground and paved the way for Hsu Fu Chi to grow by leaps and bounds.

In 1997, Singapore's Transpac Industrial ("Transpac"), a private equity firm, invested in and introduced new ideas and visions into the Company. Hsu Fu Chi Holdings was then incorporated and Dongguan Hsu Chi was established as its subsidiary to oversee the development of the Hsu Fu Chi brand in China's confectionery market.

In 2000, Hsu Fu Chi together with its subsidiaries (the "Group") subscribed to operating in the modern trade, which entrenched Hsu Fu Chi's solid foundation to make the leap in China's retail market.

In 2006, Hsu Fu Chi was successfully listed on the main board of the Singapore Exchange Securities Trading Limited ("SGX-ST") and set a milestone in pursuing its goal of becoming a leading global brand.

In 2009, Star Candy Ltd, which is indirectly owned by Baring Private Equity Asia GP IV (Baring Asia) took over Transpac's shares and actively engaged itself in the Board and corporate operational activities of the Company, aiming to add further value to the Group.

In June 2010, Hsu Fu Chi's fully owned subsidiary Henan Hsu Fu Chi Foods Co. Ltd. commenced production of its cake products which had since laid the ground for the construction of the Group's nation-wide production and logistic bases.

In the light of a vision to make Hsu Fu Chi a hundred-year brand, the Group has in July 2011 announced the proposed establishment of a joint venture between Nestlé S.A. ("Nestlé") and the current majority shareholders of the Company, namely Mr Hsu Chen, Mr Hsu Keng, Mr Hsu Hang and Mr Hsu Pu. In addition, Nestlé would also acquire a 43.52% interest in the Company by way of a Scheme of Arrangement ("the Scheme"). It is also intended that the Company would delist from the SGX-ST conditional and subject to the satisfaction of other scheme conditions, including the receipt of approval from MOFCOM, the Ministry of Commerce, PRC. The Group has on 26 September 2011 obtained approval from its shareholders on the Scheme.

PRODUCTION

Currently, Hsu Fu Chi has four core production bases located in Dongguan and Henan. With a combined land area exceeding 500,000 sqm, there are 47 large scale automated production workshops, over 220 state-of-the-art production lines including 736 automated packaging machines. Being one of the largest producers of confectionery products in China, the Group produces three main product categories - Candy, Cake & Cookie and Sachima.

BUSINESS

Over 99.5% of the Group's confectionery products are sold in China. As of the financial year ended 30 June 2011, there were 128 sales branches across China. Sales teams with approximately 9,000 sales and logistic personnel manage a mix of modern and traditional trade channels consisting of more than 20,118 direct retail points. Among which, 3,470 specialty counters assigned with dedicated promoters are deployed in hypermarkets and supermarkets nation-wide.

AWARDS AND ACCOLADES

Consistent quality, food safety and great taste are reasons why Hsu Fu Chi has been repeatedly chosen by consumers as their preferred confectionery product brand.

According to the National Bureau of Statistics of China's annual survey in 2010, Hsu Fu Chi's Candy products topped the sales for this product category again and extended its record to thirteen consecutive years since 1998. It was conferred the accolade of "China Top Brand" for its Candy products in 2004 and 2007, and for its Biscuit products in 2006. In year 2009, the "Hsu Fu Chi" trademark was accredited as a "Chinese Well-Known Trademark" by the State Administration for Industry and Commerce of China.

MESSAGE FROM CHAIRMAN

Looking ahead, the Group will continue with its 10-year development plan towards its interim goal of achieving an effective operation of its branch offices to procure sustained growth and performance.

Dear Shareholders,

On behalf of the Board of Directors of Hsu Fu Chi International Limited ("Hsu Fu Chi" or together with its subsidiaries "the Group"), I am pleased to present the annual report for the financial year ended 30 June 2011 ("FY2011").

Review of Operations

For the year under review, the Group has embarked on its second phase of its 10-year development plan. While the rate of expansion of its branch offices has slowed down, the Group's operational head office has consolidated the administration and control of the branch operations to maximize synergy and performance in each region where these branch offices were located.

Group revenue has achieved a record high of RMB 5.157 billion for FY2011. The achievement was made despite the challenges faced by the Group, such as soaring raw material prices, increasing labour costs, and inflationary pressure. The Group implemented manufacturing and marketing measures to mitigate the impact of high operational costs. As a result, a gross margin of 42.6% and net profit margin of 12.3% were maintained. In addition, a net profit of RMB 676.3 million was reported in the FY2011 results.

Outlook

The Group has established direct control over its modern trade channels since year 2000. It has successfully laid a solid foundation putting in place its first phase of the 10-year development plan. An effective sales and distribution network had been established nation-wide, offering powerful market penetration and a model for further expansion. This has successfully elevated the 'Hsu Fu Chi' brand status in the PRC, and further strengthened its foothold in the PRC's confectionery snacks industry.

The founders of the Group are always seeking ways to sustain the Group's business and vision to making the "Hsu Fu Chi" brand a hundred-year brand. In the course of exploring possible joint venture with global confectioners for over the past few years, the Company had identified the world's largest food consortium, Nestlé S.A.("Nestlé") as a suitable strategic partner.

Nestlé's advanced food technologies, team expertise, managerial systems in various aspects of operations, and its global supporting network could enhance Hsu Fu Chi's branding, manufacturing, and marketing abilities. The Company can also leverage on Nestlé's expertise in product research and innovation in manufacturing a better and wider range of consumer snack products targeted at the PRC market. With such collaboration, Hsu Fu Chi will be able to build a platform that can bring continued growth, and sustain the Group's brand and business for a hundred years.

Looking ahead, the Group will continue with its 10-year development plan towards its interim goal of achieving an effective operation of its branch offices to procure sustained growth and performance. This objective will remain whether or not the joint venture project with Nestlé would be able to obtain the approval from MOFCOM, Ministry of Commerce, PRC.

Going forward, the Group will continue to launch products for the medium to high end consumers market. The Group's "Mobao" brand of muffin cakes will further enter the modern trade market which will be made available on the specialty counters. Leveraging on its sales success and product image, the "Mobao" brand will enhance the "Hsu Fu Chi" corporate brand and its penetration in various tiers of the market.

Dividend

The Board did not recommend any dividend for FY2011 due to the conditions set out in the Scheme Document dated 31 August 2011 and released to the Shareholders on 2 September 2011. One of the conditions of the Scheme (as defined in the Scheme Document) is that the Company will not make or agree to make any distribution to any person in its capacity as a Shareholder on or prior to the Effective Date. For further details, please refer to paragraph 3.1 of the letter to the shareholders and depositors on "Terms of the Scheme" in the Scheme Document.

Appreciation

I would like to take this opportunity to express my sincere appreciation to all the suppliers, customers and business associates of the Company for their unstinting support to the Company's business. I would also like to extend my gratitude to my fellow Board members for their expertise and guidance. Lastly, I would like to express my heartfelt thanks to all shareholders for their support to the implementation of the Scheme in relation to the Hsu Fu Chi-Nestlé joint venture.

Hsu Chen
Chairman

OPERATIONS REVIEW

With a commitment to our widely recognised brand statement "Enjoy different cookies every time, and make each day a fresh day".

For FY2011, the Group achieved a record revenue of RMB5.157 billion, representing a growth of 19.8%, compared to the previous corresponding year. Among the Group's three key product categories, revenue from its Candy products, Cake and Biscuit products, and Sachima products increased by 22.4%, 10.8% and 28.3% respectively, compared to the previous year. All three product categories reflected stable growth.

The Group's business faced operational challenges due to substantial increase in the production costs during FY2011. The significant labour wages increase enforced by the PRC government and continued soaring of raw material prices had impacted the Group's gross profit margin. Notwithstanding so, the Group was able to deliver a satisfactory net profit attributable to shareholders of RMB 676 million for FY2011. In addition to the continued expansion of its products and manufacturing capacity, the Group focuses on production automation and enhancement of its branch office operations to pave the way for long-term business success.

The total production capacity for FY2011 increased by 8.7% to 373,191 tonnes, compared to FY2010 due to the completion of certain facilities in Dongguan and Henan.

Raw material prices rose sharply due to global weather changes and inflation in the PRC. Labour cost continued to be lobbied through the PRC government policies. As a result, both the Group's gross sales margin and net profit margin growth rate were impacted. Gross profit for FY2011 reached RMB 2.198 billion, an 8.5% increase compared to FY2010 whereas the gross sales margin declined by 4.4% to 42.6%. Net profit attributable to shareholders increased by 12.3% to RMB 676 million, a slight drop compared to the previous year's 13.1%.

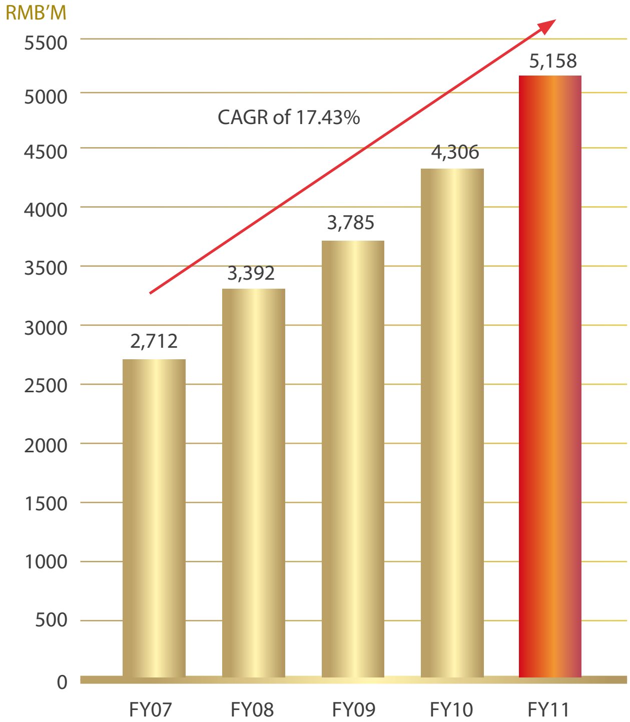
In FY2011, the Group expanded its sales network to 128 branch offices, an increase of 16% from FY2010. For an effective control of the branch operations, the Group has established 20 regional offices nation-wide overseeing the branch operations. This has enabled a speedy implementation of sales strategies and more efficient route-to-market services. The adequate execution of merchandising policies on the retail end had enhanced the Group's brands and products. The number of retail points under direct control of the Company grew over 16% to 20,118 points whereas specialty counters grew 4.5% to 3,470 counters. On product development, the Group has developed more than 23 new products, which brings the total number of product items under the Group's three key product categories to over 500 items.

Since the Group's launch of the 'Doctor Bear' brand as its major sub-brand targeting children consumers in 2009, the 'Doctor Bear' brand has achieved a 90% brand recognition and 75% preference rate in its targeted market. The product brand is expected to attain a 25% average growth annually for the next five years.

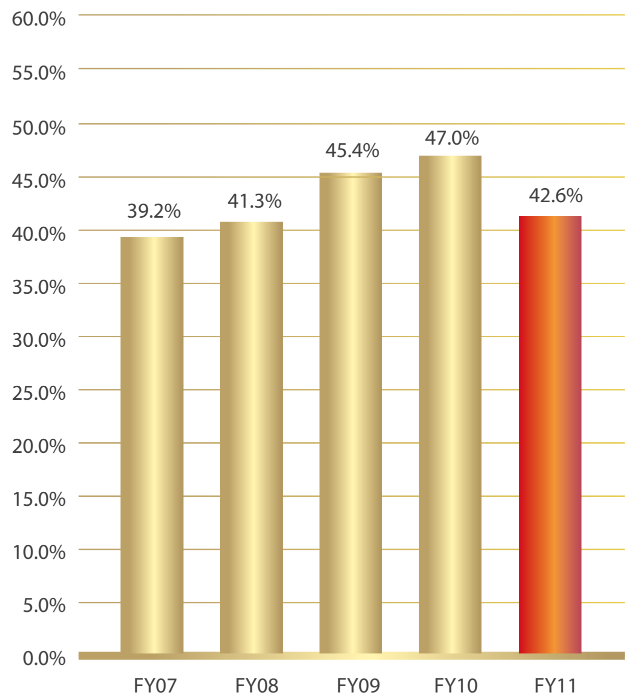
The Group's Sugar Confectionery products maintained its position as the top seller this year in China's Candy market. According to the National Bureau of Statistics of China, Hsu Fu Chi's Candy products has topped the sales in China for 13 consecutive years since 1998.

FINANCIAL HIGHLIGHTS

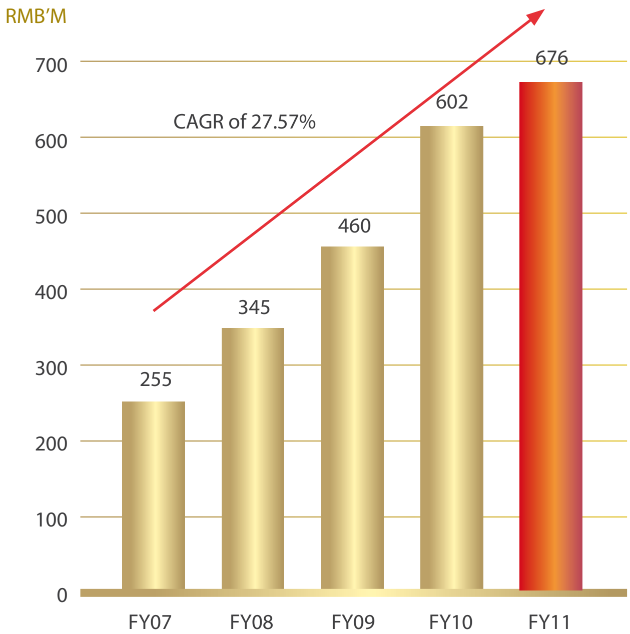
Revenue



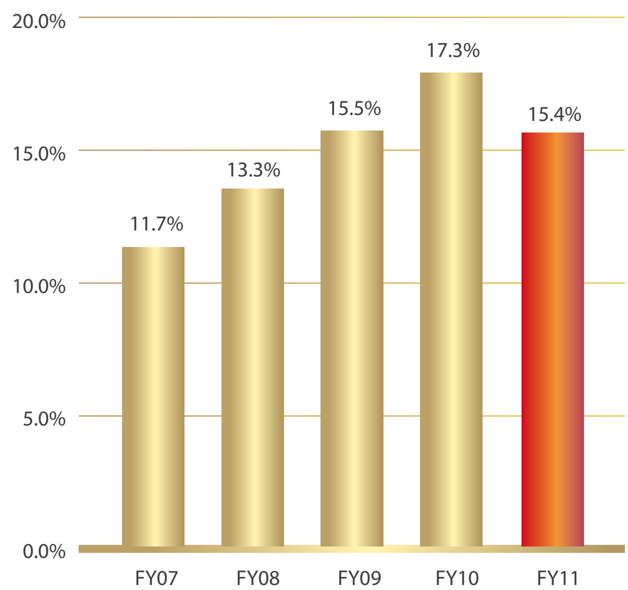
Gross Profit Margin



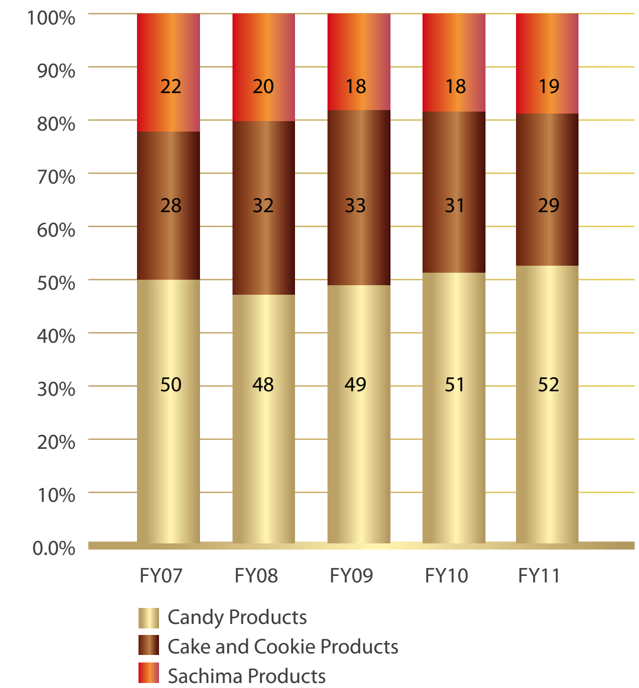
Net Profit Attributable to Shareholders



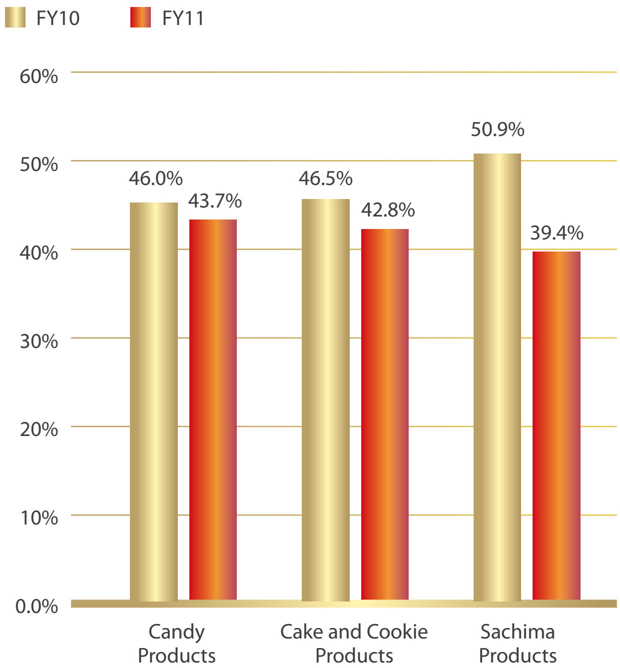
EBIT Margin



Percentage of Total Revenue by Product Categories



Gross Profit Margin by Product Categories



Annual Financial Performance Review

	FY2007		FY2008		FY2009		FY2010		FY2011	
	RMB'M	% Increase	RMB'M	% Increase	RMB'M	% Increase	RMB'M	% Increase	RMB'M	% Increase
Revenue	2,712	31.9	3,392	25.0	3,785	11.6	4,306	13.8	5,158	19.8
Cost of Goods Sold	(1,649)	29.5	(1,991)	20.7	(2,068)	3.9	(2,280)	10.2	(2,959)	29.8
Gross Profit	1,063	35.8	1,401	31.7	1,716	22.6	2,026	18.0	2,198	8.5
Operating Expense										
Selling Expenses	(631)	25.9	(819)	29.8	(958)	17.0	(1,122)	17.2	(1,237)	10.2
G&A Expenses	(124)	89.1	(158)	27.5	(183)	16.3	(209)	14.0	(217)	3.7
Operating Income	309	42.4	424	37.4	576	35.7	695	20.7	745	7.2
Non-operating Income (Expenses)*	1	(95.1)	22	1,723.0	9	(60.6)	60	582.0	77	29.1
Profit before Tax	310	28.1	447	44.0	584	30.9	754	29.1	822	9.0
Income Tax	(55)	78.9	(102)	86.0	(124)	21.8	(152)	22.9	(146)	(4.2)
Net Profit attributable to Shareholders	255	20.8	345	35.0	460	33.5	602	30.8	676	12.3
Earning Per Share (RMB)	0.34		0.43		0.58		0.76		0.85	
Earning Per Share (SGD)	0.07		0.09		0.12		0.16		0.16	
Exchange Rate	4.9702		5.0371		4.7169		4.8618		5.259	

* Included in non-operating income/(expenses) is foreign exchange differences which has been presented as part of G&A expenses in the Consolidated Statement of Comprehensive Income.

CORPORATE STRUCTURE

Hsu Fu Chi International Limited

- 100% **Hsu Fu Chi International Holdings Limited**
  - Dongguan Hsu Chi Food Co. Ltd.
  - Dongguan Andegu Plastic Packaging Material Ltd.
  - Chengdu Hsu Chi Food Co., Ltd.
  - Huzhou Hsu Chi Food Co. Ltd.
  - Henan Hsu Fu Chi Foods Co. Ltd.
  - Henan Hua Tai Xin Foodstuff and Commodity Limited
  - Henan Zhongyuan Madian Foodstuff and Commodity Limited
  - Huzhou Hsu Fu Chi Food Co. Ltd.
- 100% **Hsu Fu Chi Holdings Ltd.**
  - Hsu Fu Chi (Hong Kong) Trading Company Limited
    - Kyoichido Co., Ltd. (formerly known as Marukyo Confectionery Co. Limited)

CORPORATE SALES NETWORK

As at the financial year ended 30 June 2011, the Group has established more than 128 branches sales offices in the following states:

Beijing, Shanghai, Guangzhou, Nanjing, Hangzhou, Suzhou, Qingdao, Shenzhen, Fuzhou, Changsha, Shenyang, Xian, Wuhan, Kunming, Chengdu, Hefei, Nanchang, Zhengzhou, Tianjin, Chongqing, Nanning, Taiyuan, Guiyang, Shijiazhuang, Zhuhai, Haerbin, Dalian, Yancheng, Huangshi, Jiangmen, Lanzhou, Xiamen, Jingzhou, Changchun, Xiangfan, Jinjiang, Jinhua, Zigong, Ningbo, Jinan, Foshan, Changzhou, Shantou, Nanchong, Wenzhou, Qingyuan, Xinjiang, Huizhou, Changde, Hengyang, Zhanjiang, Haikou, Linyi, Changan, Tangshan, Wuxi, Liuzhou, Shaoxing, Zhumadian, Huzhou, Jiaxing, Huangpu, Wuhu, Yantai, Zibo, Huhehaote, Xinxiang, Baiyun, Bengbu, Puning, Zhaoqing, Nantong, Xiaogan,Yangzhou, Jinzhou, Ganzhou, Yichang, Nanping, Zhangzhou, Taizhou, Xiangtan, Luoyang, Xinyang, Linfen, Jingdezhen, Xuzhou, Weifang, Jilin, Hanjiang, Yueyang, Shaoyang, Leshan, Anqing, Jiujiang, Changping, Anshan, Qiqihaer, Huaihua, Qingshan, Liuzhou, Dali, Qujing, Fuyang, Fenggang, Longgang, Baoan, Zhongshan, Pudong, Jining, Taian, Datong, Xingtai, Jiamusi, Zhuzhou, Xianning, Wanzhou, Mianyang, Baoji, Yinchuan, Zunyi, Beihai, Guilin, Zhoukou, Hebi, Yichun, Panyu, Shaoguan, Dongcheng, Qingxi, Meizhou, Maiming.

BOARD OF DIRECTORS

Hsu Chen Executive Director

Mr. Hsu Chen is the Executive Chairman and one of the founders of the Group. He oversees the Sales Department, Marketing Department and Product Development Department. He is also currently a Director of certain subsidiaries of the Company. He was appointed a Director on 8 October 2006 and was last re-elected on 23 October 2009. Mr. Hsu Chen has extensive experience in the confectionery and snack food industry. Prior to the founding of the Group in 1992, Mr. Hsu Chen was the general manager of Hsu Chi (Taiwan) Foods Co., Ltd., a company in the business of processing and selling candies, dried bean curd, preserved fruits, melon seeds, peanuts and barbecued pork, from 1976 to 1992. He was also the general manager of Taiwan An Gu Foods (Marketing) Industrial Co. Ltd, which was involved in the import, marketing and sales of the products of Hsu Chi (Taiwan) Foods Co. Ltd. during the same period. From 1991 to 1995, Mr. Hsu Chen was the general manager of Hsu Chi (Indonesia) Food (Manufacturing) Company and was responsible for its overall operations. He was also the general manager of Thailand Hua Tai Liang He Company (a company in the business of production and trading of preserved fruits) from 1985 to 1995. Mr. Hsu Chen attended Ming Hsin Institute of Industrial Technology from 1969 to 1970.

Hsu Hang Executive Director

Mr. Hsu Hang is the Chief Operating Officer and was appointed a Director on 18 October 2006. Mr. Hsu Hang was last re-elected on 24 October 2008. He is also one of the founders of the Group and is responsible for the Company's administrative operations. He is currently the director of certain subsidiaries of the Company, and the vice-president of Dongguan Taiwan Investment Enterprise Association. He was the President of the Dongcheng Branch of Dongguan Taiwan Investment Enterprise Association from 1999 to 2001. Prior to founding the Group in 1992, Mr. Hsu Hang was a sales director of Taiwan An Gu Foods (Marketing) Industrial Co., Ltd., from 1981 to 1992, a company in the business of selling and distributing snack food products. Mr. Hsu Hang holds an Executive Master in Business Administration from the Pacific Western University in the United States, and a diploma from the Institute of World's Journalism in Taiwan.

Hu Chia-Hsun Executive Director

Mr. Hu Chia-Hsun joined the Group as the President in 2005. He was appointed a Director on 25 October 2006, and was last re-elected on 24 October 2008. From 1986 to 1990, Mr. Hu Chia-Hsun was a senior consultant and country manager at Technomic Consultants Co., a marketing research company, and was responsible for market research, project undertaking and business coordination. He founded Central Human-Resource & Management Co., Ltd. and ITAI Engineering & Construction Co. Ltd. in 1991 and 1997 respectively, and operated the two companies successfully. Mr. Hu Chia-Hsun holds a Bachelor of Science in civil engineering from Tamkang University, and a Master's degree in Business Administration from Andrews University, Chicago.

Hsu Pu Non-executive Director

Mr. Hsu Pu is one of the founders of the Group. He was appointed as a Director on 26 October 2007 and was last re-elected on 23 October 2009. He is currently a Director of certain subsidiaries of the Company, and also the Executive Director of Hong Kong Kalitex Industrial Limited and Strong Power International Enterprise Limited. Prior to that, Mr. Hsu Pu was a Director of Taiwan An Gu Foods (Marketing) Industrial Co. Ltd. and Taiwan Hsu Chi Food from 1976 to 1992. He studied in Taiwan's National Cheng-Chi University between 1974 and 1975.

Shaw Sun Kan Gordon Non-executive Director

Mr. Shaw was appointed as a Director on 1 November 2009 and was last re-elected on 29 October 2010. Mr. Shaw is the Co-founder & Managing Director at Baring Private Equity Asia. He has over 18 years of private equity experience across Asia. Mr. Shaw was previously a Director at AIG Investment Corp (Asia) Ltd., as well as the head of Equity Investments at Nan Shan Life Insurance in Taiwan. Prior to AIG, Mr. Shaw worked at Citibank in Hong Kong, and before that, was at Schlumberger Technologies in San Jose, California. Mr. Shaw holds a Bachelor of Science in Electrical Engineering from Massachusetts Institute of Technology, and a Master in Business Administration from Columbia University.

Lim Hock San Independent Director

Mr. Lim Hock San was appointed a Director on 25 October 2006 and was last re-elected on 24 October 2008. He is presently the President and Chief Executive Officer of United Industrial Corporation Limited as well as Singapore Land Limited. He currently serves on the Board of Keppel Corporation Limited, Ascendas Pte Ltd, and Gallant Venture Ltd. He is a fellow of the Institute of Certified Public Accountants of Singapore and the Chartered Institute of Management Accountants in the United Kingdom. Mr. Lim was awarded the Meritorious Service Award by National Trades Union Congress ("NTUC") in 1992. He was also awarded the Public Administration Medal (Gold), the Public Service Medal, and the Meritorious Medal by the Singapore Government. Mr. Lim holds a Bachelor degree of Accountancy from the then University of Singapore and a Master of Science in Management from the Massachusetts Institute of Technology.

Lam Khin Khui Independent Director

Mr. Lam Khin Khui was appointed a Director on 25 October 2006 and was last re-elected on 29 October 2010. He currently serves on the Board of Directors of Rotary Engineering Limited. He was formerly a partner of Egon Zehnder International, a management consulting firm. Prior to that, he was a senior manager at Temasek Holdings (Private) Limited from 1980 to 1987 and was the Company Secretary of Temasek Holdings (Private) Limited from 1988 to 1989. Mr. Lam holds a Bachelor of Engineering from the University of Melbourne and a Diploma in Business Administration from The University of Singapore.

Dr. Lee Tsu-Der Independent Director

Dr. Lee Tsu-Der was appointed as a Director on 24 October 2008 and was last re-elected on 23 October 2009. Dr Lee brings to the Group significant knowledge of the capital markets and expertise on Corporate Governance with his extensive business experience and knowledge of China, Taiwan and Hong Kong markets. Dr Lee joined H&Q Asia Pacific (Taiwan) in 1995 and served as the Chief Advisor for its China Investments. From 1995 to 1998, Dr Lee played important roles in various key investments in China covering Pharmaceutical, Biotech, Media, and Consumer Goods industry. From 1999 to 2003, Dr Lee served as General Manager of H&Q Asia Pacific (China). Dr Lee served as the Chairman for Starbucks Coffee Beijing Limited, and Chairman of Shan Dong Kexing Biotech Company. Currently, he is the Vice Chairman of H&Q Asia Pacific (Taiwan). Dr Lee obtained his medical degree in dentistry from Taipei Medical University in Taiwan. Currently he is director for Xpress Holdings (Singapore) and the Chairman of the Board of Taipei Medical University.

Kenneth Cheong Alternate Director

Mr. Kenneth Cheong was appointed an alternate director to Mr. Gordon Shaw on 31 March 2010. Mr. Cheong is a Managing Director of Baring Private Equity Asia Pte. Ltd. Prior to joining Baring Private Equity Asia Pte. Ltd. in 1998, Mr. Cheong was a Manager at BZW Asia Ltd involved in mergers & acquisitions and equity capital market transactions. Prior to that, Mr. Cheong was an Assistant Treasurer with DBS Bank Ltd. Mr. Cheong graduated with First Class Honors in Econometrics and Mathematical Economics from the London School of Economics.

SENIOR MANAGEMENT

Ho Kuang-Hua

Mr. Ho Kuang-Hua is the Group's Production General Manager. He joined the Group in 2009, and is responsible for the integrated operations in production and its associated aspects. Prior to joining the Group, he worked in Zhengyi Foods, Ting Hsin International and Optimis Group, and held experience in various positions from production/sales managers, vice general manager, general manager, to board director. He has over 21 years of experience in the food and related industries.

Greg Chou

Mr. Greg Chou is the Financial Controller of the Group. He joined the Group in 2008 and is responsible for the Company's financial operations. Mr. Chou has 9 years of diverse work experience from working in accounting firm (PWC) to stock listed company (EVA) mostly in the area of finance management. He majored in accounting at Taiwan's Fu-Jen Catholic University and received his MBA degree from West Texas A&M University.

Daniel Chang

Mr. Daniel Chang is the Accounting Director of the Group. He joined the Group in 2009 and is responsible for general accounting and financial operations. Mr. Daniel Chang has 25 years of working experience from working in multi-national manufacturing companies (Philips) to stock listed companies (Primax and Taiwan Cement) focusing mostly on the area of accounting and business controlling. He majored in accounting at Taiwan's Fong-Chia University.

Xiao Ming Zhe

Mr. Xiao Ming Zhe joined the Group in July 2011 as the Vice-General Manager of the Department of Quality Assurance & Product Development. His duties are focused on coordinating, assisting, and supervising all works of the Department to facilitate effective product development and safety operations. Mr. Xiao graduated from The Food Science and Technology Department of National Taiwan Marine University in 1980. With up to 30 years' experience in the food industry, he has attained skills in quality control, and inspection, product development, manufacturing process, and plant management. He had previously held positions as QA Director, Manager of Plant, Assistant to General Manager etc. in a few reputed Taiwanese food companies,, and specifically General Manager of a plant of the Want Want Group in Hangzhou.

Ma Hao

Mr. Ma Hao is the Head of Quality Control Department and is responsible for quality control, safety and hygiene of the Group's products. Mr. Ma has over 20 years of experience in quality control of certain food products. He is currently a member and the Vice Secretary-General of National Technical Committee on Candy and Chocolate of Standardization Administration of China, a member of National Technical Committee on Foods for Special Dietary Use of Standardization Administration of China, a member of National Technical Committee on Snack Food Standardization, and a member of Expert Committee of China National Food Industry Association. Mr. Ma joined Dongguan Hsu Chi in 1997. Prior to joining Dongguan Hsu Chi, Mr. Ma was the Deputy Factory Manager of Dongguan Hao Le Ice-cream Factory from 1992 to 1994 and was responsible for quality control of its products and technology. Mr. Ma holds a Bachelor degree in food engineering from South China University of Technology in 1988.

Yang Kun-Ti

Mr. Yang Kun-Ti is the Deputy Head of Sales Operations Department and is responsible for sales distribution, logistics and receivable collection management. Mr. Yang joined Dongguan Hsu Chi in 2004. Prior to that, he was the general manager of Wen Dan Tang Food Co., Ltd., a company in the business of food products and was responsible for its management and sales, from 1996 to 2004. Mr. Yang was the Division Chief of Taiwan An Gu Foods (Marketing) Industrial Co., Ltd, a company in the business of selling and distributing snack food products, from 1986 to 1992 and was responsible for the sales of the company's products. Mr. Yang studied at the National Open University in Taiwan.

Lee Kok-Lee

Mr. Lee Kok-Lee joined Dongguan Hsu Chi Food Company in 2007. He is currently in charge of the planning and development of the Group's prospective direct retail business operations as well as the general control of the procurement activities for the Group. Prior to joining the Group he was the General Manager of Singapore Tiangu Ltd. Hong Kong office from 1996 to 2000. And between 2000 to 2005 he was the General Manager of the Shanghai Niufu Food Industrial Ltd.

Wang Li - Lien

Mr. Wang Li–Lien (formerly Wang, Yung-Chiang) is the Head of Plant Logistics Department. He joined the Group in November 2008, and took over the position in February 2009. Prior to that, he was in professional military service, and had eight years of experience in the field of logistics management.

CORPORATE INFORMATION

Executive:
Hsu Chen (Chairman)
Hu Chia-Hsun
Hsu Hang

Non-Executive:
Lim Hock San (Independent)
Lam Khin Khui (Independent)
Lee Tsu-Der (Independent)
Hsu Pu (Non-Independent)
Shaw Sun Kan Gordon (Non-Independent)
Cheong Tuck Kuen Kenneth
(Alternate Director to Shaw Sun Kan Gordon)

AUDIT COMMITTEE
Lim Hock San (Chairman)
Lee Tsu-Der
Shaw Sun Kan Gordon

NOMINATING COMMITTEE
Lam Khin Khui (Chairman)
Lim Hock San
Lee Tsu-Der
Shaw Sun Kan Gordon

REMUNERATION COMMITTEE
Lam Khin Khui (Chairman)
Lim Hock San
Shaw Sun Kan Gordon

COMPANY SECRETARIES
Busarakham Kohsikaporn, FCIS
Toh Lei Mui, ACIS

ASSISTANT SECRETARY
Codan Trust Company (Cayman) Limited

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Website: http://www.hsufuchifoods.com

SINGAPORE SHARE TRANSFER AGENT
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50 Raffles Place #32-01
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Singapore 048623

CAYMAN ISLANDS SHARE REGISTRAR
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AUDIT PARTNER-IN-CHARGE
Tan Swee Ho
Appointed with effect from the financial year ended 30 June 2011

CORPORATE COUNSEL
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16 Gemmill Lane
Singapore 069254

The Board is committed to maintaining high standards of corporate governance within the Company and its subsidiaries (the "Group") where possible through the implementation of self-regulatory & monitoring mechanisms within the Group. The Board confirms that it has generally adhered to the principles and guidelines set out in the Code of Corporate Governance 2005 (the "Code"), where they are applicable, relevant and practicable to the Group.

BOARD MATTERS

Principle 1: Board's Conduct of its Affairs

The Board of Directors (the "Board") oversees the business and corporate affairs of the Group and is collectively responsible for its success.

The Board comprises:

Executive Directors

Hsu Chen (Executive Chairman)
Hu Chia-Hsun
Hsu Hang

Non-Executive Directors

Hsu Pu (Non-independent)
Lim Hock San (Independent)
Lam Khin Khui (Independent)
Lee Tsu-Der (Independent)
Shaw Sun Kan Gordon (Non-independent)
Cheong Tuck Kuen Kenneth (Alternate to Shaw Sun Kan Gordon)

The Board currently has a total of 8 directors, one-third of whom are Independent Directors. The Board comprises members with a broad range of knowledge, expertise and experience such as accounting or finance, business and management. This brings a diversity of experience and expertise to the development of the Group's strategies and performance of its business as well as a useful exchange of ideas and views.

The Board's role includes:

(i) setting the Group's values and standards towards maximising shareholders' value;

(ii) providing effective leadership and management, setting corporate strategy and directions for the Group to achieve its objectives;

(iii) reviewing and monitoring Management's performance;

(iv) overseeing the process related to risk management and internal control, financial reporting and compliance, including the approval and release of financial results and announcement of material transactions;

(v) approving annual budgets, major funding proposals, investment and divestment proposals, material acquisitions and disposal of assets and interested person transactions of a material nature;

(vi) advising Management on major policy initiation and significant issues;

(vii) declaring dividends, if applicable;

(viii) approving the nomination of Directors and appointment of key personnel; and

(ix) overseeing the proper conduct of the Group's business and assuming responsibility for corporate governance.

The Board objectively makes decisions in the interests of the Company. To assist in the execution of its responsibilities, the Board has established an Audit Committee, a Remuneration Committee and a Nominating Committee. All Board Committees have been constituted with clear written terms of reference and are chaired by an Independent Director and all members are Non-Executive Directors.

The Board meets quarterly in a year to review the performance of the business and to approve the release of the announcement of the Group's full year and quarterly results. The Board accepts that while the Board Committees have the delegated power to make decisions, execute actions or make recommendations in their specific areas respectively, the ultimate responsibility for the decisions and actions reside with the Board. As and when required, additional Board meetings are also held to address significant transactions or issues that arise.

The Company's articles provide for meetings to be held via telephone and video-conferencing through which all persons participating in the meetings can communicate with each other simultaneously and instantaneously. When a physical Board or Board Committee meeting is not possible, timely communication with members of the Board or Board Committee can be achieved through electronic means and the circulation of written resolution for approval by the relevant members of the Board of Board Committee.

Details of Board and Board committee meetings held during the financial year ended 30 June 2011 ("FY2011") are summarised in the table below:

Meeting	Board	Audit Committee	Nominating Committee	Remuneration Committee
Total held in FY2011	4	4	1	1
Hsu Chen	3	NA	NA	NA
Hu Chia-Hsun	4	NA	NA	NA
Hsu Hang	4	NA	NA	NA
Hsu Pu	4	NA	NA	NA
Lim Hock San	4	4	1	1
Lam Khin Khui	4	NA	1	1
Lee Tsu-Der	4	4	1	1
Shaw Sun Kan Gordon (Alternate : Cheong Tuck Kuen Kenneth)	4	4	1	1

The Board is kept informed of the new updates regarding the requirements of the Singapore Exchange Securities Trading Limited ("SGX-ST") and other statutory and regulatory requirements from time to time.

Newly appointed Directors would be provided with information on the Group's business operations and policies. Directors who do not have prior experience as a Director of a listed company, will undergo the necessary training and briefing.

Directors also have the opportunity to meet with Management and visit the Group's operational facilities so as to gain a better understanding of the Group's business operations.

Principle 2: Board Composition and Guidance

The size and composition of the Board are reviewed by the Nominating Committee ("NC") to ensure that the Board has the appropriate mix of expertise and experience and collectively possess relevant and necessary skill sets and core competencies for effective decision making. The NC also strives to ensure that the size of the Board is conducive to discussions and facilitates decision making.

The NC with the concurrence of the Board is of the view that the current Board size of 8 members is adequate taking into account the nature and scope of the Group's operations. The diversity of the Directors' experiences allows for the useful exchange of ideas and views.

The Non-Executive Directors contribute to the Board process by monitoring and reviewing the Management's performance against goals and objectives. Their views and opinions provide alternative perspectives to the Group's business. When challenging the Management's proposals or, decisions, they bring independent judgment to bear on business activities and transactions involving conflicts of interest and other complexities.

The Articles of Association of the Company provide that each Director should retire at least once every three years (Article 86(1)). All newly appointed Directors during the year will hold office only until the next Annual General Meeting ("AGM") and will be eligible for re-election (Article 85(6)).

Mr Lim Hock San, Mr Hsu Hang and Mr Hu Chia-Hsun will be retiring at the forthcoming AGM pursuant to Article 86(1).

The NC having considered the attendance and participation of the Directors at Board and Board Committees meetings, in particular, their contributions to the business and operations of the Company as well as Board processes, had nominated the abovenamed persons for re-appointment at the forthcoming AGM.

The Board has accepted the NC's nomination and the abovenamed Directors will be offering themselves for re-election.

Each member of the NC shall abstain from voting on any resolutions and making any recommendations and/or participating in respect of his re-nomination as director.

Principle 3: Chairman and Chief Executive Offi cer ("CEO")

Mr Hsu Chen is the Chairman and CEO of the Company. He plays a key role in developing the business of the Group and provides the Group with a strong leadership and vision. He is responsible for business strategy and direction, formulation of the Group's corporate plans and policies and executes decision-making.

As Chairman of the Board, Mr Hsu is responsible for the effective working of the Board such as ensuring the Board meetings are held when necessary, assisting in ensuring compliance with the Group's guidelines on corporate governance, acting as facilitator at Board meetings and keeping the Directors updated and informed of the Group's business. He ensures that the Board is properly briefed in a timely manner on pertinent issues and development.

Although this is a deviation from the recommendation of the Code, the Board believes that vesting the roles of both Chairman & CEO on the same person who is knowledgeable in the business of the Group provides the Group with a strong and consistent leadership and allows for more effective planning and execution of long term business strategies. Mr Hsu's dual role as Executive Chairman & CEO will enable the Group to conduct its business more efficiently and to ensure that the decision making process of the Group would not be unnecessarily hindered.

The Board believes that there are adequate safeguards and checks in place to ensure that the process of decision making by the Board is independent and based on collective decision making without Mr Hsu exercising any undue influence on any decision made by the Board.

As such, the Board does not consider segregating the role of Chairman & CEO at this moment. The NC will review the need to separate the roles from time to time and make its recommendation.

The Company Secretaries assist the Chairman in scheduling Board and Board Committee meetings respectively as well as prepare agenda papers for the Board and Board Committee meetings in consultation with the Chairman.

Principles 4 & 5: Board Membership & Performance

The NC, regulated by a set of written terms of reference, comprises a majority of Independent Directors. The Chairman is Mr Lam Khin Khui, an Independent Director, who is not, or who is not directly associated with, a substantial shareholder. The members of the NC are as follows:

Lam Khin Khui (Chairman)
Lim Hock San
Lee Tsu-Der
Shaw Sun Kan Gordon

The principal functions of the NC are to:

- review and recommend to the Board, the structure size and composition of the Board and Board Committees.
- review and recommend to the Board for the appointment and re-election of directors;

- ensure that all Directors submit themselves for re-nomination and re-election at regular intervals;
- evaluate the performance of the Board as a whole;
- review and evaluate whether or not a Director is able to and has been adequately carrying out his/her duties as a director of the Company, particularly when he/she has multiple Board representations;
- review on an annual basis the independence of Directors.

Pursuant to its terms of reference, the NC is required to determine if a Director has been adequately carrying out his duties as a Director of the Company, particularly if he has multiple board representations. Having considered the confirmations received from Mr Lam Khin Khui, Mr Lim Hock San, Dr Lee Tsu-Der and Mr Shaw Sun Kan Gordon, the NC concluded that each Director had been adequately carrying out his duties despite his multiple board representation.

The NC has adopted a Process for Selection and Appointment of New Directors which provides the procedure for identification of potential candidates, evaluation of candidates' skills, knowledge and experience and the assessment of candidates' suitability of becoming a director of the Company.

The curriculum vitae and other particulars/documents of the nominee or candidate will be reviewed by the NC before the NC makes any recommendations to the Board for the appointment of directors.

A formal letter is sent to newly-appointed Directors setting out the terms and conditions of his appointment.

The NC which reviews the independence of Directors on an annual basis, adopts the Code's definition of what constitutes an independent director and guidelines as to relationships which would deem a director not to be independent. The NC also deems a Director who is directly associated with a substantial shareholder as non-independent, although such a relationship has not been expressly adopted in the Code as one that may deem a director not to be independent.

The NC has also reviewed the independence of the Board members and has determined Lam Khin Khui, Lim Hock San and Lee Tsu-Der to be independent and free from any of the relationships as outlined in the Code. The remaining Non-Executive Directors namely Hsu Pu (a substantial shareholder) and Shaw Sun Kan Gordon (by virtue of his nomination made by a substantial shareholder), are deemed non-independent by the NC.

The NC has adopted a formal system to assess the performance of the Board as a whole. The evaluation of the Board is conducted annually and is in the form of a questionnaire relating to the Board composition, information flow to the Board, Board procedures, Board accountability matters and standards of conduct of the Board members.

As part of the process, all Directors complete a Board Evaluation Questionnaire which is then collated by the Company Secretaries and presented to the NC together with comparatives from the last two years. The NC will also discuss the feedback with Board members.

For FY2011, the NC is generally satisfied with the Board evaluation results, which indicated areas for improvement, but no significant problems were identified. The NC had discussed these results with Board members who had agreed to work on those areas that require improvement. The NC will continue to review its procedure, effectiveness and development from time to time.

Key information regarding the Directors is provided below on pages 12 to 13 of the Annual Report.

Principle 6: Access to Information

The Board has independent and separate access to the senior management and Company Secretaries at all time. Requests for information from the Board are dealt with promptly by Management. In order to ensure that the Board is able to fulfill its responsibilities, Management is required to provide to the Board adequate and timely information and updates on initiatives and developments for the Group's business whenever possible.

At least one of the Company Secretaries attends all Board meetings and meetings of the Board Committees and ensures that the meetings are conducted in accordance with the Memorandum and Articles of Association of the Company and applicable rules and regulations are complied with. When necessary, the Board may seek independent professional advice and the cost of such professional advice will be borne by the Company.

REMUNERATION MATTERS

Principle 7: Procedures for Developing Remuneration Policies

The RC, regulated by a set of written terms of reference, comprises entirely the following Non-Executive Directors:

Lam Khin Khui (Chairman)
Lim Hock San
Shaw Sun Kan Gordon

The RC is responsible for the following:

(a) reviewing and recommending to the Board a framework of remuneration for the Directors and senior management which covers all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits-in-kind.

(b) reviewing and recommending the remuneration package for the CEO, Executive Directors & key executives. The recommendations of the RC on the remuneration package shall be submitted to the entire Board for approval.

(c) reviewing and recommending assessment of the Non-Executive Directors, taking into account factors such as their effort, their time spent and their responsibilities.

(d) recommending to the Board term incentive schemes which may be set up from time to time.

(e) carrying out other duties as may be agreed by the RC and the Board.

If required, the RC will seek expert advice inside and/or outside the Company on remuneration of all Directors and key executives.

Principle 8: Level and Mix of Remuneration

Each director is paid a basic fee, with additional fees for appointment to Board Committees and for attending Board and Board Committee meetings. The Directors' remuneration is reviewed yearly to ensure that it takes into account the effort and time spent, and responsibilities of the Directors.

The RC had during the financial year, recommended a revision of the basic fee for each Director and the additional fees for the Board Chairman and Chairman of each Board Committee. The RC, having regard to the level of contribution and time spent, had recommended Directors' fees amounting to S$606,000. The Board will table this at the Company's forthcoming AGM for shareholders' approval.

The remuneration for the Executive Directors and the key senior executives comprises a basic salary component and a variable component, an annual bonus, based on the performance of the Group as well as their individual performance.

As part of its responsibilities, the RC reviews the remuneration of each of the Executive Directors and senior management's remuneration packages annually and makes recommendations to the Board for approval. The RC ensures that their remuneration commensurate with their performance, giving due regard to the financial and commercial health and business needs of the Group.

Each member of the RC shall abstain from voting on any resolutions and making recommendations and/or participating in any deliberations of the RC in respect of his remuneration package or fees.

The service contract between the Company and the Chairman was renewed for a period of 2 years commencing on 1 December 2009. The service contract consists of a salary and a performance bonus depending on the profit level of the Group.

Principle 9: Disclosure on Remuneration

The level and mix of each individual Director's remuneration band for FY2011 is as follows:

	Directors' fees	Salary	Bonus	Benefits	Total
Above S$500,000					
Hsu Chen[1]	10%	29%	61%	–	100%
Below S$250,000					
Hu Chia-Hsun	28%	61%	11%	–	100%
Hsu Hang[1]	29%	52%	19%	–	100%
Hsu Pu[1]	100%	–	–	–	100%
Shaw Sun Kan Gordon (Alternate : Cheong Tuck Yew Kenneth)	100%	–	–	–	100%
Lim Hock San	100%	–	–	–	100%
Lam Khin Khui	100%	–	–	–	100%
Lee Tsu Der	100%	–	–	–	100%

Note:

1. Hsu Chen, Hsu Hang and Hsu Pu are brothers.

For FY2011, the remuneration of the top 5 executives of the Group is as follows:

		Salary	Bonus	Benefits	Total
Below S$250,000					
Ho Kuang-Hua	General Manager - Manufacturing	86%	14%	–	100%
Yang Kun-Ti	Deputy Chief - Sales Operations	77%	23%	–	100%
Lee Kok-Lee	General Manager - Retail Planning and Development	75%	25%	–	100%
Daniel Chang	Accounting Director	84%	16%	–	100%
Greg Chou	Financial Controller	85%	15%	–	100%

Notes:

1. Mr Hsu Chin is the son of Hsu Pu and nephew of Hsu Chen and Hsu Hang and his remuneration did not exceed S$150,000 during the year.

2. Mr Hsu Hao is the son of Hsu Chen and nephew of Hsu Pu and Hsu Hang. His remuneration did not exceed S$150,000 during the year.

Other than disclosed above, there are no employees of the Group who are immediate family members of a director or the CEO and whose remuneration exceeds S$150,000 during the year.

The Company does not have a long-term incentive or share option scheme in place as at 30 June 2011.

ACCOUNTABILITY AND AUDIT

Principle 10: Accountability

The Management is accountable to the Board and presents to the Board the quarterly and full-year results and the Audit Committee reports on the results for review and approval. The Board then approves the results and authorises the release of results to the SGX-ST and the public via SGXNET.

The Company ensures that price sensitive information is publicly released, either before the Company meets any group of investors or analysts or simultaneously with such meetings. Financial results and annual reports are announced or issued within the mandatory period.

In presenting the annual financial statements and quarterly announcements to shareholders, the Board ensures that there are detailed analyses, explanation and assessment of the Group's financial position and prospects.

In line with the SGX-ST listing rules, negative assurance statements were issued by the Board to accompany its quarterly financial results announcements confirming to the best of its knowledge that nothing had come to its attention which would render the Company's quarterly results to be false or misleading in any material aspects.

Principle 11: Audit Committee ("AC")

The AC comprises three members, all of whom are Non-Executive Directors:

Lim Hock San (Chairman)
Lee Tsu-Der
Shaw Sun Kan Gordon

The AC members have numerous years of experience in senior management positions. The Board believes that the AC members are appropriately qualified, having the necessary accounting or related financial management expertise to discharge their duties and responsibilities.

The AC held four meetings during the year.

The AC assists the Board in discharging its responsibility to safeguard the Group's assets, maintain adequate accounting records, and develop and maintain effective systems of internal control, with the overall objective of ensuring that the Management creates and maintains an effective control environment in the Group.

The AC's functions are outlined below:

(a) reviewing with the external auditors the audit plan, their evaluation of the system of internal accounting controls, their letter to management and management's response;

(b) reviewing the Group's financial results and announcements before submission to the Board for approval, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards and compliance with the Listing Manual and any other relevant statutory or regulatory requirements;

(c) reviewing the internal control procedures and ensuring co-ordination between the internal and external auditors and the Management, and the assistance given by Management to the auditors, and discussing problems and concerns, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of management, where necessary);

(d) reviewing and discussing with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group's operating results or financial position, and Management's response;

(e) reporting to the Board its findings from time to time on matters arising and requiring the attention of AC;

(f) considering the appointment or re-appointment of the internal and external auditors and matters relating to the resignation or dismissal of the auditors;

(g) reviewing Interested Person Transactions (if any) falling within the scope of Chapter 9 of the Listing Manual;

(h) reviewing transactions falling within the scope of Chapter 9 and Chapter 10 of the Listing Manual.

(i) reviewing potential conflicts of interest, if any;

(j) undertaking such other reviews and projects as may be requested by the Board, and reporting to the Board on its findings from time to time on matters arising and requiring the attention of the AC; and

(k) generally undertaking such other functions and duties as may be required by statute or the Listing Manual, or by such amendments as may be made thereto from time to time.

The Group has adopted a "Whistle-Blowing Policy" programme which provides an avenue for staff of the Group to raise concerns about possible improprieties which may cause financial or non-financial loss of the Company. There were no reports received for FY2011 under the Whistle-Blowing Policy.

The AC has full access to and co-operation from the Management and full discretion to invite any Director or executive officer to attend its meetings, and has been given resources to enable the AC to discharge its functions properly. The external auditors have unrestricted access to the AC.

The AC has reviewed the overall scope of the external audits and the assistance given by the Company's officers to the auditors. It met with the Company's external auditors to discuss the results of their respective examinations and their evaluation of the Company's internal accounting controls.

For FY2011, the AC had also met with the external auditors separately, without the presence of the Management. The external auditors confirmed that they had received full co-operation from the Management and no restrictions were placed on the scope of the audit. The AC had also reviewed the non-audit related work carried out by the external auditors during FY2011 and is satisfied that their independence and objectivity has not been impaired by the provision of those services.

The aggregate amount of non-audit fees paid to the external auditors for FY2011 was SGD 5,000, in connection with the provision of agreed-upon procedures in relation to the Company's Scheme Document dated 31 August 2011.

The AC, with the concurrence of the Board, has recommended the re-appointment of Ernst & Young LLP as external auditors at the forthcoming Annual General Meeting of the Company.

Principle 12: Internal Controls

The Board acknowledges that it is responsible for ensuring the Company has in place a sound system of internal controls. It is however, impossible to preclude all errors and irregularities, as a system is designed to manage rather than eliminate risks, and therefore can provide only reasonable and not absolute assurance against material misstatements or losses, errors or misjudgments, fraud or other irregularities.

A formal risk review exercise is carried out half yearly by Management to assess the material risk exposures identified by the respective business units, as well as the risk mitigation controls. These risk assessment and control measures are presented to the AC for its independent review.

Principle 13: Internal Audit ("IA")

The Group had in September 2010 established an internal audit department ("IAD") to oversee the Group's internal audit function. The IAD had identified certain internal weaknesses but no significant problems were identified. Management had taken steps to improve such identified weaknesses.

The IAD reports directly to the AC on audit matters and the CEO on administrative matters.

Following the IAD's report for FY2011, Management had evaluated its resources and proposed to the AC that the internal audit function be outsourced to a professional firm. However, in view of the proposed acquisition of the Company's shares by Nestle S.A. and pending the outcome of the Company's proposed delisting, the AC would revisit the matter when appropriate.

Principle 14: Communication with Shareholders
Principle 15: Greater Shareholder Participation

The Company is committed to regular and open communication with its shareholders. It is the Board's policy that the shareholders be informed of the major developments that impact the Group.

Information is communicated to shareholders on a timely basis through:

- SGXNet releases;
- annual reports that are prepared and issued to all shareholders;
- quarterly and annual financial statements containing a summary of the financial information and affairs of the Group for the period; and
- notices of general meetings.

At the Annual General Meeting ("AGM"), shareholders are given the opportunity to voice their views and seek clarification. The Chairmen of the Audit, Remuneration and Nominating Committees and the external auditors are normally available at the Annual General Meeting to answer shareholders' queries.

SECURITIES TRANSACTIONS

The Group has adopted an internal compliance code of conduct to provide guidance to its Directors, key officers and employees regarding dealings in the Company's securities and implication of insider trading. Directors and employees are prohibited from dealing in securities of the Company two weeks before the release of the quarterly results and at least one month before the release of full year results and at all times, if in possession of unpublished price-sensitive information. The internal compliance code also discourages trading on short-term consideration. The Group confirmed that it had adhered to its policy for securities transaction for FY2011.

MATERIAL CONTRACTS

Save for the service agreements entered into between the Company and the Board Chairman/CEO, there were no material contracts of the Company, or its subsidiaries involving the interests of the Chairman/CEO, any Director or controlling shareholder subsisting as at 30 June 2011

Subject to the occurrence of the Effective Date (as defined in the scheme document dated 31 August 2011 (the "Scheme Document")) and pending the scheme of arrangement as proposed in the Scheme Document becoming effective, the Individual Shareholders namely, Mr Hsu Chen, Mr Hsu Keng, Mr Hsu Hang and Mr Hsu Pu shall enter into a joint venture agreement with Nestle S.A., the Company and the Holdco (as defined in the Scheme Document).

INTERESTED PERSON TRANSACTIONS ("IPTs")

The Company has established procedures to ensure that IPTs are reported in a timely manner to the AC and such transactions are conducted on an arm's length basis and are not prejudicial to the interests of the shareholders.

The AC and Board had reviewed these transactions in FY2011 and ascertained that these transactions were carried out at arm's length and under normal commercial terms.

The aggregate value of IPTs conducted during FY2011 was below the threshold limits set out under Chapter 9 of the Listing Manual of the SGX-ST.

RISK MANAGEMENT

The Management, headed by the CEO regularly reviews the Group's operations and activities to identify areas of risks as well as appropriate measures to control and mitigate these risks. Significant matters will be reported to the AC and the Board.

The Group's financial risk management is discussed under Note 28 of the Notes to the Financial Statements, on page 68 to 73 of the Annual Report.

Financial Contents

The directors are pleased to present their report to the members together with the audited financial statements of Hsu Fu Chi International Limited (the "Company") and its subsidiaries (collectively, the "Group") for the financial year ended 30 June 2011.

Directors

The directors of the Company in office at the date of this report are:

Hsu Chen	(Executive Chairman)
Hu Chia-Hsun	(President, Executive Director)
Hsu Hang	(Executive Director)
Hsu Pu	(Non-executive Director)
Shaw Sun Kan Gordon	(Non-executive Director)
Lim Hock San	(Independent Director)
Lam Khin Khui	(Independent Director)
Dr Lee Tsu-Der	(Independent Director)
Cheong Tuck Kuen Kenneth	(Alternate Director to Shaw Sun Kan Gordon)

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose object is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had interests in shares of the Company either at the beginning or end of the financial year as stated below:

	Direct interest		Deemed interest	
Name of Director	At the beginning of financial year/date of appointment	At the end of financial year	At the beginning of financial year/date of appointment	At the end of financial year
The Company				
Hsu Fu Chi International Limited *(Ordinary shares)*				
Hsu Chen	134,000,000	134,000,000	Nil	Nil
Hu Chia-Hsun	7,685,000	650,000	Nil	Nil
Hsu Hang [(1)]	Nil	Nil	107,200,000	107,200,000
Hsu Pu	87,200,000	87,200,000	Nil	Nil
Shaw Sun Kan Gordon	Nil	Nil	7,000	7,000
Cheong Tuck Kuen Kenneth	36,000	36,000	36,000	36,000

(1) Ophira Finance Ltd holds 107,200,000 shares in the Company as at 30 June 2011. Mr Hsu Hang is deemed to be interested in the shares held by Ophira Finance Ltd because he owns all the shares in that entity.

There was no change in any of the above-mentioned interests between the end of the financial year and 21 July 2011.

Except as disclosed in this report, no director who held office at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year or at the end of the financial year.

Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Options

No options were issued by the Company or its subsidiaries during the financial year. As at 30 June 2011, there were no options on the unissued shares of the Company or its subsidiaries which are outstanding.

Audit Committee

The Audit Committee (AC) carried out its functions in accordance with the Listing Manual and the Best Practices Guide of the SGX-ST, and the Code of Corporate Governance including the following:

- Reviewing the audit plans of the internal and external auditors of the Group and ensuring the adequacy of the Group's system of accounting controls and the co-operation given by the Group's management to the external and internal auditors;
- Reviewing the quarterly and annual financial statements and the auditors' report on the annual financial statements of the Group before their submission to the board of directors;
- Reviewing effectiveness of the Group's material internal controls, including financial, operational and compliance controls and risk management via reviews carried out by the internal auditors;
- Meeting with the external auditors, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC;
- Reviewing legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programs and any reports received from regulators;
- Reviewing the cost effectiveness and the independence and objectivity of the external auditors;
- Reviewing the nature and extent of non-audit services provided by the external auditors;
- Recommending to the board of directors the external auditors to be nominated, approving the compensation of the external auditors, and reviews the scope and results of the audit;
- Reporting actions and minutes of the AC to the board of directors with such recommendations as the AC considers appropriate; and
- Reviewing interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited (SGX-ST)'s Listing Manual.

The AC, having reviewed all non-audit services provided by the external auditors to the Group, is satisfied that the nature and extent of such services would not affect the independence of the external auditors. The AC has also conducted a review of interested person transactions.

The AC convened four meetings during the year with full attendance from most of its members. The AC has also met with external auditors, without the presence of the Company's management, at least once a year.

Further details regarding the audit committee are disclosed in the Report on Corporate Governance.

The AC has nominated Ernst & Young LLP for re-appointment as auditors of the Company at the forthcoming Annual General Meeting.

Auditors

Ernst & Young LLP has expressed its willingness to accept reappointment as auditors.

On behalf of the board of directors:

Hsu Chen
Director

Hsu Hang
Director

27 September 2011

STATEMENT BY DIRECTORS

We, Hsu Chen and Hsu Hang being two of the directors of Hsu Fu Chi International Limited, do hereby state that, in the opinion of the directors,

(i) the accompanying balance sheets, consolidated statement of comprehensive income, statements of changes in equity and consolidated cash flow statement together with notes thereto are drawn up so as to present fairly, in all material respects, the state of affairs of the Group and of the Company as at 30 June 2011 and the results of the business, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date, and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the board of directors:

Hsu Chen
Director

Hsu Hang
Director

27 September 2011

Report on the Consolidated Financial Statements

We have audited the accompanying financial statements of Hsu Fu Chi International Limited (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 32 to 75, which comprise the balance sheets of the Group and the Company as at 30 June 2011, the statements of changes in equity of the Group and the Company, the consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Singapore Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with Singapore Financial Reporting Standards so as to present fairly, in all material respects, the financial position of the Group and of the Company as at 30 June 2011 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

Ernst & Young LLP

Public Accountants and
Certified Public Accountants

Singapore
27 September 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Financial Year ended 30 June 2011 (Amounts expressed in Renminbi)

	Note	2011 Rmb'000	2010 Rmb'000
Revenue	4	5,157,501	4,305,656
Cost of sales		(2,959,147)	(2,279,968)
Gross profit		2,198,354	2,025,688
Other items of income			
Other income	5	52,052	39,119
Financial income	6	34,179	12,961
Other items of expense			
Selling and distribution expenses		(1,236,910)	(1,122,337)
General and administrative expenses		(221,324)	(198,617)
Financial expenses	6	(4,141)	(2,341)
Profit before tax	7	822,210	754,473
Income tax	10	(145,905)	(152,278)
Profit net of tax		676,305	602,195
Other comprehensive income:			
Foreign currency translation		(18)	(8)
Other comprehensive income for the year, net of tax		(18)	(8)
Total comprehensive income attributable to shareholders		676,287	602,187
Basic and diluted earnings per share (Rmb)	11	0.85	0.76

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

	Note	Group 2011 Rmb'000	Group 2010 Rmb'000	Company 2011 Rmb'000	Company 2010 Rmb'000
Investment in subsidiaries	12	–	–	982,197	982,197
Property, plant and equipment	13	1,764,993	1,591,299	–	–
Land use rights	14	241,850	211,803	–	–
Intangible assets	15	2,965	2,029	–	–
Prepayments for property, plant and equipment		53,532	210,015	–	–
Deferred tax assets	16	151,493	97,107	–	–
		2,214,833	2,112,253	982,197	982,197
Current assets					
Inventories	17	319,185	381,650	–	–
Trade, bills and other receivables	18	260,856	314,401	526,694	878,658
Prepayments		50,726	47,208	648	1,111
Cash and bank balances		2,045,768	1,291,828	3,357	2,968
		2,676,535	2,035,087	530,699	882,737
TOTAL ASSETS		4,891,368	4,147,340	1,512,896	1,864,934
EQUITY AND LIABILITIES					
Current liabilities					
Trade and other payables	19	546,677	608,525	3,161	2,443
Other liabilities	20	562,934	542,889	1,851	3,192
Short-term bank loans	21	520,772	–	–	–
Income tax payable		70,481	29,363	–	–
		1,700,864	1,180,777	5,012	5,635
NET CURRENT ASSETS		975,671	854,310	525,687	877,102
Non-current liabilities					
Provision for retirement benefits	22	170,190	–	–	–
Deferred tax liabilities	16	82,721	109,007	–	–
		252,911	109,007	–	–
TOTAL LIABILITIES		1,953,775	1,289,784	5,012	5,635
NET ASSETS		2,937,593	2,857,556	1,507,884	1,859,299
Equity attributable to equity holders of the Company					
Share capital	23	40,124	40,124	40,124	40,124
Share premium		1,445,020	1,445,020	1,445,020	1,445,020
Translation reserve		(119)	(101)	–	–
Reserve fund	24	376,652	282,193	–	–
Restructuring reserve		(716,588)	(716,588)	–	–
Accumulated profits		1,792,504	1,806,908	22,740	374,155
TOTAL EQUITY		2,937,593	2,857,556	1,507,884	1,859,299
TOTAL EQUITY AND LIABILITIES		4,891,368	4,147,340	1,512,896	1,864,934

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the Financial Year ended 30 June 2011 (Amounts expressed in Renminbi)

Group	Share capital (Note 23) Rmb'000	Share premium Rmb'000	Translation reserve Rmb'000	Reserve fund (Note 24) Rmb'000	Restructuring reserve Rmb'000	Accumulated profits Rmb'000	Total equity Rmb'000
Opening balance at 1 July 2010	40,124	1,445,020	(101)	282,193	(716,588)	1,806,908	2,857,556
Profit net of tax	–	–	–	–	–	676,305	676,305
Other comprehensive income for the year	–	–	(18)	–	–	–	(18)
Total comprehensive income for the year	–	–	(18)	–	–	676,305	676,287
Dividends (Note 25)	–	–	–	–	–	(596,250)	(596,250)
Appropriation to reserve fund	–	–	–	94,459	–	(94,459)	–
Closing balance at 30 June 2011	40,124	1,445,020	(119)	376,652	(716,588)	1,792,504	2,937,593
Opening balance at 1 July 2009	40,124	1,445,020	(93)	207,963	(716,588)	1,509,493	2,485,919
Profit net of tax	–	–	–	–	–	602,195	602,195
Other comprehensive income for the year	–	–	(8)	–	–	–	(8)
Total comprehensive income for the year	–	–	(8)	–	–	602,195	602,187
Dividends (Note 25)	–	–	–	–	–	(230,550)	(230,550)
Appropriation to reserve fund	–	–	–	74,230	–	(74,230)	–
Closing balance at 30 June 2010	40,124	1,445,020	(101)	282,193	(716,588)	1,806,908	2,857,556

Notes:

Restructuring reserve:

This represents the difference between the nominal value of shares issued by the Company in exchange for the nominal value of shares and capital reserve of subsidiaries acquired which is accounted for under "pooling of interest method".

Translation reserve:

The translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

Company	Share capital (Note 23) Rmb'000	Share premium Rmb'000	Translation reserve Rmb'000	Accumulated profits Rmb'000	Total equity Rmb'000
Opening balance at 1 July 2010	40,124	1,445,020	–	374,155	1,859,299
Profit net of tax	–	–	–	244,835	244,835
Total comprehensive income for the year	–	–	–	244,835	244,835
Dividends (Note 25)	–	–	–	(596,250)	(596,250)
Closing balance at 30 June 2011	40,124	1,445,020	–	22,740	1,507,884
Opening balance at 1 July 2009	40,124	1,445,020	–	424,040	1,909,184
Profit net of tax	–	–	–	180,665	180,665
Total comprehensive income for the year	–	–	–	180,665	180,665
Dividends (Note 25)	–	–	–	(230,550)	(230,550)
Closing balance at 30 June 2010	40,124	1,445,020	–	374,155	1,859,299

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the Financial Year ended 30 June 2011 (Amounts expressed in Renminbi)

	2011 Rmb'000	2010 Rmb'000
Cash flows from operating activities		
Profit before tax	822,210	754,473
Adjustments for:		
Depreciation of property, plant and equipment	223,445	216,195
Amortisation of land use rights	4,986	4,801
Amortisation of intangible assets	946	383
Loss on disposal of property, plant and equipment	3,414	2,533
Impairment of plant and machinery	23,298	28,029
(Write-back)/allowance for doubtful trade receivables	(9,282)	634
Allowance for inventory obsolescence	41,314	2,165
Interest expense and bank charges	4,141	2,341
Interest income	(34,179)	(12,961)
Translation difference	(18)	(8)
Operating cash flows before changes in working capital	1,080,275	998,585
Changes in working capital:		
Decrease/(increase) in inventories	21,151	(156,090)
Decrease/(increase) in trade, bills and other receivables	62,827	(27,688)
Increase in prepayments	(3,518)	(17,943)
(Decrease)/increase in trade and other payables	(61,848)	36,591
Increase in other liabilities	164,842	145,118
Increase in bank deposits subject to restricted application	1,752	1,644
Cash flows generated from operations	1,265,481	980,217
Interest income received	34,179	12,961
Interest expense and bank charges paid	(4,141)	(2,341)
Income taxes paid	(185,459)	(148,390)
Net cash generated from operating activities	1,110,060	842,447
Cash flows from investing activities		
Purchase of property, plant and equipment (Note B)	(262,439)	(270,783)
Proceeds from sale of property, plant and equipment	1,409	17,643
Purchase of intangible assets - Land use rights (Note C)	(15,978)	(42,270)
Purchase of intangible assets - Computer software	(1,882)	(1,150)
Net cash used in investing activities	(278,890)	(296,560)
Cash flows from financing activities		
Proceeds from bank loans	553,774	–
Repayment of bank loans	(33,002)	(30,000)
Dividends paid	(596,250)	(230,550)
Net cash used in financing activities	(75,478)	(260,550)
Net increase in cash and cash equivalents	755,692	285,337
Cash and cash equivalents at beginning of the financial year	1,285,383	1,000,046
Cash and cash equivalents at the end of the financial year (Note A)	2,041,075	1,285,383

Notes to the Consolidated Cash Flow Statement

A. Cash and cash equivalents

Cash and cash equivalents included in the consolidated cash flow statement comprise the following:

	2011 Rmb'000	2010 Rmb'000
Cash at bank and in hand	603,020	470,890
Short term deposits	1,442,748	820,938
Cash and bank balances	2,045,768	1,291,828
Bank deposits subject to restricted application	(4,693)	(6,445)
Cash and cash equivalents	2,041,075	1,285,383

Bank deposits subject to restricted application relate to bank balances placed in designated bank accounts for the purpose of tax payments as required by the PRC tax authorities.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one week and six months depending on the immediate cash requirements of the Group, and earn interests at the respective short term deposit rates.

B. Property, plant and equipment

	2011 Rmb'000	2010 Rmb'000
Current year additions to property, plant and equipment	423,580	162,325
Less: Payables to creditors in current year	(10,631)	(5,973)
Prepayments in prior year	(210,015)	(139,685)
	202,934	16,667
Add: Payables to creditors in prior year	5,973	44,101
Prepayments in current year	53,532	210,015
Net cash outflow for purchase of property, plant and equipment	262,439	270,783

C. Land use rights

	2011 Rmb'000	2010 Rmb'000
Current year additions to land use rights	36,713	–
Add: Payments for prior year acquisitions	–	42,270
Less: Accrual of land use related expenses	(20,735)	–
Net cash outflow for purchase of land use rights	15,978	42,270

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

1. Corporate information

1.1 The Company

The Company is an exempt company with limited liability, incorporated in the Cayman Islands on 18 October 2006 and is listed on the Singapore Exchange Securities Trading Limited (SGX-ST).

The registered office of the Company is at Cricket Square Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business of the Group is located at Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong Province, 523118, People's Republic of China ("PRC").

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are disclosed in Note 12.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards ("FRS").

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The Group's principal operations are conducted in the PRC and thus the consolidated financial statements are prepared in Renminbi ("Rmb"), being the measurement and presentation currency of the Company. All values are rounded to the nearest thousand (Rmb'000) except when otherwise indicated.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards and Interpretations of FRS (INT FRS) that are effective for annual periods beginning on or after 1 July 2010. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group and the Company.

2.3 Standards issued but not yet effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Revised FRS 24 Related Party Disclosures	1 January 2011
INT FRS 115 Agreements for the Construction of Real Estate	1 January 2011
INT FRS 119 Extinguishing Financial Liabilities with Equity Instruments	1 January 2011
Amendments to FRS 107 Disclosures – Transfers of Financial Assets	1 July 2011
Amendments to FRS 12 Deferred Tax – Recovery of Underlying Assets	1 January 2012
Improvements to FRSs 2010	1 January 2011 unless otherwise stated

Except for the revised FRS 24, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the revised FRS 24 is described below.

2. Summary of significant accounting policies (cont'd)

2.3 Standards issued but not yet effective (cont'd)

Revised FRS 24 Related Party Disclosures

The revised FRS 24 clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised FRS 24 expands the definition of a related party and would treat two entities as related to each other whenever a person (or a close member of that person's family) or a third party has control or joint control over the entity, or has significant influence over the entity. The revised standard also introduces a partial exemption of disclosure requirements for government-related entities. The Group is currently determining the impact of the changes to the definition of a related party has on the disclosure of related party transaction. As this is a disclosure standard, it will have no impact on the financial position or financial performance of the Group when implemented in financial year ending 2012.

2.4 Foreign currency

The Group's consolidated financial statements are presented in Renminbi (Rmb), which is also the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(a) Transactions and balances

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

(b) Group companies

The assets and liabilities of foreign operations are translated into Rmb at the rate of exchange ruling at the end of the reporting period and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates or jointly controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

2. Summary of significant accounting policies (cont'd)

2.5 Subsidiaries and basis of consolidation (cont'd)

(a) Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less any impairment losses.

(b) Basis of consolidation

Business combinations from 1 July 2009

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

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

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with FRS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

2. Summary of significant accounting policies (cont'd)

2.5 Subsidiaries and basis of consolidation (cont'd)

(b) Basis of consolidation (cont'd)

Business combinations involving entities under common control are accounted for by applying the pooling of interest method. The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the consolidated financial statements of the controlling holding company. Any difference between the consideration paid and the share capital of the "acquired" entity is reflected within equity as restructuring reserve. The statement of comprehensive income reflects the results of the combining entities for the full year, irrespective of when the combination takes place. Comparatives are presented as if the entities had always been combined since the date the entities came under common control.

<u>Business combinations before 1 July 2009</u>

In comparison to the above mentioned requirements, the following differences applied:

Business combinations are accounted for by applying the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree are not reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent measurements to the contingent consideration affected goodwill.

2.6 Related party

A party is considered to be related to the Group if:

(a) The party, directly or indirectly through one or more intermediaries,

- (i) controls, is controlled by, or is under common control with, the Group;
- (ii) has an interest in the Group that gives it significant influence over the Group; or
- (iii) has joint control over the Group;

(b) The party is an associate;

(c) The party is a jointly-controlled entity;

(d) The party is a member of the key management personnel of the Group or its parent;

(e) The party is a close member of the family of any individual referred to in (a) or (d); or

(f) The party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

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

2. Summary of significant accounting policies (cont'd)

2.7 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying property, plant and equipment. The accounting policy for borrowing costs is set out in Note 2.17. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of an asset begins when it is available for use and is computed on a straight-line basis to write off the cost of property, plant and equipment less estimated residual value over the estimated useful life of the assets as follows:

	Years
Buildings	20
Plant and machinery	5 or 10
Office equipment	3-5
Motor vehicle	4-5

Construction-in-progress relates to the production facilities and office buildings under construction and these are depreciated only when they become available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

2.8 Intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortised over their estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

2. Summary of significant accounting policies (cont'd)

2.8 Intangible assets (cont'd)

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is de-recognized.

(i) Computer software

Computer software is measured at cost less accumulated amortisation and any impairment loss. It is amortised on a straight-line basis over its estimated useful life of 5 years.

2.9 Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation. The land use rights are amortised on a straight-line basis over the lease term of 50 years.

2.10 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

2.11 Financial assets

Initial recognition and measurement

Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

2. Summary of significant accounting policies (cont'd)

2.11 Financial assets (cont'd)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

The Group has not classified any financial asset in other categories of financial assets.

Derecognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

2.13 Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

(a) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

2. Summary of significant accounting policies (cont'd)

2.13 Impairment of financial assets (cont'd)

(a) Financial assets carried at amortised cost (cont'd)

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred; the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(b) Financial assets carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:

Raw materials	-	purchase cost on a weighted average basis
Semi-finished goods and finished goods	-	cost of direct materials and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

2.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2. Summary of significant accounting policies (cont'd)

2.16 Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of non-derivative financial liabilities, plus directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Non-derivative financial liabilities

After initial recognition, non-derivative financial liabilities are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

The Group has not classified any financial liabilities upon initial recognition at fair value through profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.17 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalization of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.18 Operating lease

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of INT FRS 104.

As lessee

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2. Summary of significant accounting policies (cont'd)

2.19 Employee benefits

(a) Defined contribution plans - pension benefits

The subsidiaries in the PRC are required to provide certain staff pension benefits to their employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiaries' employees.

Pension contributions are recognised as an expense in the period in which the related services are performed.

(b) Provision for PRC statutory welfare expenses

Provision for PRC statutory welfare expenses is recognised at 0.5% of the subsidiaries' net profits as stated in their PRC statutory financial statements. This amount is charged to profit or loss through the "General and administrative expenses" line item.

(c) Provision for retirement benefits

The cost of providing benefits under retirement benefits plan is determined using the projected unit credit actuarial valuation method. All actuarial gains and losses are immediately recognised in profit or loss in the period in which they arise.

The past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested, immediately following the introduction of, or changes to, a pension plan, past service costs are recognised immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation (derived using a discount rate based on high quality corporate bonds) at the end of the reporting period plus any actuarial gains (less any actuarial losses) not recognised and reduced by past service costs not yet recognised.

(d) Employee leave entitlement

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. The estimated liability for leave is recognised for services rendered by employees up to the balance sheet date.

2.20 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

(a) Sale of goods

Revenue is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customers. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due or associated costs.

(b) Interest income

Interest income is recognised using the effective interest method.

2. Summary of significant accounting policies (cont'd)

2.21 Government grant

Grant income is received from the local PRC government at a discretionary amount as determined by the government. It is recognised at its fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised in profit or loss over the period necessary to match it on a systematic basis to the costs that it is intended to compensate. Grants related to income may be presented as a credit in profit or loss, either separately or under a general heading such as "Other income". Alternatively, they are deducted in reporting the related expenses. Where the grant relates to an asset, the fair value is recognised as deferred grant income on the balance sheet and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

2.22 Income taxes

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2. Summary of significant accounting policies (cont'd)

2.22 Income taxes (cont'd)

(b) Deferred tax (cont'd)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(c) Value-added-tax ("VAT")

The Group's sales of goods in the PRC are subjected to VAT at the applicable tax rate of 17% for PRC domestic sales and 13% for agricultural products. Input tax on purchases can be deducted from output VAT. The Group's export sales are not subject to VAT.

Revenues, expenses and assets are recognised net of the amount of VAT except:

- Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

2.23 Share capital and share issue expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

2.24 Segment reporting

For management purposes, the Group is organised into operating segments based on their products and services which are independently managed by the respective segment managers responsible for the performance of the respective segments under their charge. The segment managers report directly to the management of the Company who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance.

The Group's segments are based on products or categories that are subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

2.25 Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

2. Summary of significant accounting policies (cont'd)

2.25 Contingencies (cont'd)

(b) a present obligation that arises from past events but is not recognised because:

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the balance sheet of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

3. Significant accounting estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

3.1 Judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

(i) Capitalisation of land use rights

The Group has land use rights with carrying value as at 30 June 2011 amounting to approximately Rmb 241,850,000 (2010: Rmb 211,803,000). Whilst the Group has constructed manufacturing facilities and commenced operations on these lands during the periods under review, the transfer of certain land use rights from the relevant authorities to the Group has not been completed as of 30 June 2011. These land use rights which are subject to the completion of transfer from the authorities amounted to approximately Rmb 78,121,000 as at 30 June 2011 (2010: Rmb 49,046,000). As the Group has fulfilled the necessary requirements relating to the acquisition of these land use rights, the management expects the transfer of the land use rights to be completed in due course and it is therefore appropriate to recognise these land use rights pending completion of transfer from the authorities as assets of the Group.

(ii) Income taxes

The Group has exposure to income taxes in the PRC. Significant judgement is involved in determining the Group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

3. Significant accounting estimates and judgements (cont'd)

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Useful lives of plant and machinery

The cost less estimated residual value of plant and machinery for the manufacture of confectionery products is depreciated on a straight-line basis over the estimated useful lives of the assets. Management estimates the useful lives of the production lines to be 5 to 10 years. The carrying amount of the Group's plant and machinery as at 30 June 2011 was Rmb 829,699,000 (2010: Rmb 787,181,000). Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of the plant and machinery.

(ii) Useful lives of buildings

The cost of construction of buildings is depreciated on a straight-line basis over 20 years. The carrying amount of the Group's buildings as at 30 June 2011 was approximately Rmb 615,598,000 (2010: Rmb 569,536,000). Changes in the physical condition of the buildings could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. As at 30 June 2011, there are no indications that the remaining economic useful lives of the buildings are significantly lower than their respective remaining useful lives.

(iii) Impairment of loans and receivables

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivables as at the balance sheet date is disclosed in Note 18 to the financial statements.

(v) Provision for retirement benefits

The cost of retirement benefit plan as well as the present value of the pension obligation is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rate, future salary increases, mortality rates and estimated employee turnover rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The net benefit liability as at 30 June 2011 is Rmb 170,190,000 (2010: Nil).

Further details about the assumptions used are provided in Note 22.

(vi) Provision for sales return

The Group's provision for sales return as at 30 June 2011 amounted to Rmb 16,658,000 (2010: Rmb 10,435,000). The provision for sales return is assessed based on the historical sales return and can vary from year to year.

4. Revenue

Revenue represents sales of goods net of sales return, discounts and value-added-tax (VAT).

5. Other income

	Group	
	2011	2010
	Rmb'000	Rmb'000
Sale of scrap materials	12,581	10,848
Government grant	30,526	24,894
Penalty charges on logistics service providers	261	460
Others	8,684	2,917
	52,052	39,119

6. Financial income and financial expenses

	Group	
	2011	2010
	Rmb'000	Rmb'000
Interest income		
- bank balances	34,179	12,961
Interest expense		
- bank loans	2,642	859
Bank charges	1,499	1,482
	4,141	2,341

7. Profit before tax

This is determined after charging/(crediting) the following:

	Group	
	2011	2010
	Rmb'000	Rmb'000
(Write-back)/allowance for doubtful trade receivables, net	(9,282)	634
Allowance for inventory obsolescence	41,314	2,165
Amortisation of land use rights	4,986	4,801
Amortisation of intangible assets	946	383
Depreciation of property, plant and equipment	223,445	216,195
Loss on disposal of property, plant and equipment	3,414	2,533
Impairment of plant and machinery	23,298	28,029
Personnel expenses, including directors' remuneration (Note 8)	569,466	406,710
Operating lease expense	49,593	39,109
Contractual payment fees to distributors	205,722	173,254
Product development expenses	168,285	167,586
Transportation expenses	180,579	171,182
Foreign exchange loss/(gain), net	4,811	(10,141)

8. Personnel expenses

	Group	
	2011	2010
	Rmb'000	Rmb'000
Salaries and bonus	296,531	317,892
Contribution to defined contribution plans	76,766	69,524
Staff welfare expenses	22,623	18,284
Retirement benefit expenses	170,190	–
Others	3,356	1,010
	569,466	406,710

9. Related party transactions

(a) In addition to those related party information disclosed elsewhere in the financial statements, the Group had the following transactions between the Group and related parties during the financial years ended 30 June 2011 and 2010 on terms agreed between the parties:

	Group	
	2011	2010
	Rmb'000	Rmb'000
Sale of goods	–	381
Office rental expense	204	127

(b) Compensation of key management personnel

	Group	
	2011	2010
	Rmb'000	Rmb'000
Salaries and bonus	12,837	12,298
Contribution to defined contribution plans	11	11
	12,848	12,309
Comprise amounts paid to:		
Directors of the Company	9,332	8,272
Other key management personnel	3,516	4,037
	12,848	12,309

10. Income tax

Major components of income tax expense for the years ended 30 June 2011 and 2010 were:

	Group	
	2011	2010
	Rmb'000	Rmb'000
Current income tax		
- current income taxation	205,202	121,093
- under provision in respect of prior years	–	5,137
Deferred income tax		
- movement in temporary differences	(54,386)	(6,545)
- withholding tax for undistributed profits of PRC subsidiaries (Note 16)	34,326	32,593
- over provision in respect of prior years	(39,237)	–
Tax expense	145,905	152,278

A reconciliation between tax expense and the product of profit before tax multiplied by the applicable tax rate for the year ended 30 June 2011 and 2010 is as follows:

	2011	2010
Profit before tax	822,210	754,473
Tax at the domestic tax rates applicable to profit in the countries where the Group operates	151,053	115,108
Adjustments:		
- Expenses not deductible for tax purposes	413	387
- Deferred tax provision relating to withholding tax for undistributed profits of PRC subsidiaries (Note 16)	34,326	32,593
- (Over)/under provision in respect of prior years	(39,237)	5,137
- Deferred tax assets not recognised	182	2,473
- Income not subject to tax	(832)	(3,420)
Tax expense	145,905	152,278

(i) Dongguan Hsu Chi Food Co., Ltd. (Dongguan Hsu Chi)

Pursuant to the Enterprise Income Tax Law of the PRC (the "EIT Law") promulgated by the National People's Congress on 16 March 2007 (effective from 1 January 2008), resident and non-resident enterprises deriving income from the PRC are subject to Enterprise Income Tax ("EIT"). Under the EIT Law, EIT applies to all enterprises, including FIEs and domestic enterprises. The general applicable EIT tax rate in the PRC is 25%.

On 16 December 2008, Dongguan Hsu Chi qualified for the High and New Technology Enterprise Status granted by the Guangdong Province Science and Technology Bureau and is therefore entitled to a reduced tax rate of 15% from 1 January 2008 to 31 December 2010. According to PRC National Tax Law (1994) 151 issued by the State Administration of Tax, a company is entitled to the preferential corporate income tax rate upon satisfaction of specified conditions.

Upon the expiry of above scheme from 1 January 2011, the EIT tax rate applicable to Dongguan Hsu Chi is 25%.

10. Income tax (cont'd)

(ii) Dongguan Hsu Fu Chi Food Co., Ltd. (Dongguan Hsu Fu Chi)

The general applicable EIT tax rate for this subsidiary is 25%.

(iii) Dongguan Andegu Plastic Packaging Material Ltd (Dongguan Andegu), Henan Hsu Fu Chi Co., Ltd (Henan Hsu Fu Chi), Henan Hua Tai Xin Foodstuff and Commodity Limited (Henan Hua Tai Xin), Henan Zhongyuan Madian Foodstuff and Commodity Limited (Henan Zhongyuan Madian) , Huzhou Hsu Chi Foods Co., Ltd (Huzhou Hsu Chi), Huzhou Hsu Fu Chi Foods Co., Ltd (Huzhou Hsu Fu Chi) and Chengdu Hsu Chi Co., Ltd (Chengdu Hsu Chi)

Based on the "Income Tax Law of the PRC for Enterprises with Foreign Investments and Foreign Enterprises", these subsidiaries are entitled to full exemption from income tax for the first two years and a 50% reduction in income tax for the next three years. Accordingly, these subsidiaries are entitled to a 50% reduction in income tax for the three years beginning from 1 January 2010 to 31 December 2012.

(iv) Hsu Fu Chi International Limited (the Company), Hsu Fu Chi Holdings Ltd (Hsu Fu Chi Holdings) and Top Ocean Trading Limited (Top Ocean)

The Company, Hsu Fu Chi Holdings and Top Ocean are incorporated in the Cayman Islands, British Virgin Islands and Western Samoa respectively and are not required to pay taxes.

(v) Hsu Fu Chi (Hong Kong) Trading Company Limited (Hsu Fu Chi Hong Kong) and Hsu Fu Chi International Holdings Limited (Hsu Fu Chi International Holdings)

Hsu Fu Chi Hong Kong and Hsu Fu Chi International Holdings are subject to a tax rate of 16.5%.

11. Basic and diluted earnings per share

As there are no dilutive potential ordinary shares, the basic and diluted earnings per share are the same.

Basic and diluted earnings per share are calculated by dividing the net profit attributable to equity shareholders of the Company by the weighted average share capital of 795,000,000 (2010: 795,000,000) ordinary shares.

12. Investment in subsidiaries

	Company 2011 Rmb'000	Company 2010 Rmb'000
Unquoted shares, at cost	982,197	982,197

The Company had the following subsidiaries as at 30 June:

Name of company	Country of incorporation	Country of operation	Principal Activities	Effective equity interest held by the Group 2011 %	Effective equity interest held by the Group 2010 %
Hsu Fu Chi Holdings Ltd.(1)	British Virgin Islands	PRC	Investment holding	100	100
Hsu Fu Chi International Holdings Limited(2)	Hong Kong	Hong Kong	Investment holding	100	100
Held by Hsu Fu Chi Holdings Ltd.					
Top Ocean Trading Limited(1)(5)	Western Samoa	Hong Kong	Sale and distribution of confectionery products	100	100
Hsu Fu Chi (Hong Kong) Trading Company Limited(3)	Hong Kong	Hong Kong	Sale and distribution of confectionery products	100*	100*
Dongguan Hsu Fu Chi Foods Co., Ltd(4)	PRC	PRC	Manufacture of confectionery products	–	100

* Includes 1% equity interest held by a director on behalf of Hsu Fu Chi Holdings Ltd

Name of company	Country of incorporation	Country of operation	Principal Activities	2011 %	2010 %
Held by Hsu Fu Chi International Holdings Limited					
Dongguan Hsu Chi Food Co., Ltd(6)	PRC	PRC	Manufacture of confectionery products and sale and distribution of self-manufactured confectionery products	100	100
Dongguan Andegu Plastic Packaging Material Ltd(6)	PRC	PRC	Production of plastic products, plastic packaging materials (including printing process) for sale to domestic and overseas markets	100	100

12. Investment in subsidiaries (cont'd)

Name of company	Country of incorporation	Country of operation	Principal Activities	Effective equity interest held by the Group 2011 %	2010 %
Held by Hsu Fu Chi International Holdings Limited (cont'd)					
Chengdu Hsu Chi Food Co., Ltd(7)(10)	PRC	PRC	Manufacture of confectionery products and sale and distribution of self-manufactured confectionery products	100	100
Huzhou Hsu Chi Food Co., Ltd(8)(10)	PRC	PRC	Manufacture of confectionery products and sale and distribution of self-manufactured confectionery products	100	100
Huzhou Hsu Fu Chi Food Co., Ltd(8)(10)	PRC	PRC	Manufacture of confectionery products and sale and distribution of self-manufactured confectionery products	100	100
Henan Zhongyuan MaDian Foodstuff and Commodity Limited(9)(10)	PRC	PRC	Sale and production of nuts, groceries and food additives	100	100
Henan Hsu Fu Chi Foods Co., Ltd(9)	PRC	PRC	Processing of agricultural products	100	100
Henan Hua Tai Xin Foodstuff and Commodity Limited(9)	PRC	PRC	Sale, production and storage of foodstuff, fruits and vegetables, processed meats, poultry and food commodities	100	100
Held by Hsu Fu Chi (Hong Kong) Trading Company Limited					
Kyiochido Co., Ltd(10) (Formerly known as Marukyo Confectionery Co, Ltd)	Japan	Japan	Sale and export of confectionery products	100	100

12. Investment in subsidiaries (cont'd)

(1)	Not required to be audited in the country of incorporation
(2)	Audited by Ernst & Young, Hong Kong
(3)	Audited by K.M.LUI Certified Public Accountants, Hong Kong
(4)	The de-registration of the Company had been completed on 9 September 2010.
(5)	The subsidiary has ceased its business activities and remained a dormant company since May 2011. The board approved the de-registration of the subsidiary on 13 July 2011.
(6)	Audited by Dongguan City Diligent Certified Public Accontants.
(7)	Audited by Chengdu Zhongda Certified Public Accountants, PRC
(8)	Audited by Zhejiang Zhengchenglianhe Certified Public Accountants, PRC
(9)	Audited by Zhumadian Yongheng Certified Public Accountants, PRC
(10)	Dormant
(1)-(3), (6)-(10)	Audited by Ernst & Young LLP, Singapore, for the purposes of consolidation

13. Property, plant and equipment

	Buildings Rmb'000	Plant and machinery Rmb'000	Office equipment Rmb'000	Motor vehicles Rmb'000	Construction-in-progress Rmb'000	Total Rmb'000
Group						
Cost						
Balance at 1 July 2010	688,853	1,654,665	68,738	84,732	162,972	2,659,960
Additions	–	214,583	7,464	15,425	186,108	423,580
Disposals	(14,791)	(42,595)	(953)	(4,674)	–	(63,013)
Reclassifications/reclassification from land use rights	79,508	17,980	–	–	(95,718)	1,770
Balance at 30 June 2011	753,570	1,844,633	75,249	95,483	253,362	3,022,297
Accumulated depreciation and impairment loss						
Balance at 1 July 2010	119,317	867,484	40,098	41,762	–	1,068,661
Depreciation charge for the year	28,918	167,210	12,075	15,242	–	223,445
Disposals	(10,353)	(43,058)	(863)	(3,916)	–	(58,190)
Reclassification from land use rights	90	–	–	–	–	90
Impairment loss	–	23,298	–	–	–	23,298
Balance at 30 June 2011	137,972	1,014,934	51,310	53,088	–	1,257,304
Net carrying amount						
At the end of the year	615,598	829,699	23,939	42,395	253,362	1,764,993

An impairment loss of Rmb 23,298,000 (2010: Rmb 28,029,000) was recognised in "Cost of Sales", representing the full write-down of certain plant and machinery which are no longer in use due to wear and tear or obsolescence.

13. Property, plant and equipment (cont'd)

	Buildings Rmb'000	Plant and machinery Rmb'000	Office equipment Rmb'000	Motor vehicles Rmb'000	Construction-in-progress Rmb'000	Total Rmb'000
Group						
Cost						
Balance at 1 July 2009	501,931	1,618,103	59,758	74,528	278,277	2,532,597
Additions	–	28,466	11,859	19,908	102,092	162,325
Disposals	(5,831)	(16,382)	(2,876)	(9,873)	–	(34,962)
Reclassifications						
- as previously reported	217,397	–	–	–	(217,397)	–
- prior year adjustment	(24,644)	24,478	(3)	169	–	–
- as restated	192,753	24,478	(3)	169	(217,397)	–
Balance at 30 June 2010 and 1 July 2010						
- as previously reported	713,497	1,630,187	68,741	84,563	162,972	2,659,960
- prior year adjustment	(24,644)	24,478	(3)	169	–	–
- as restated	688,853	1,654,665	68,738	84,732	162,972	2,659,960
Accumulated depreciation and impairment loss						
Balance at 1 July 2009	99,204	678,128	29,976	31,915	–	839,223
Depreciation charge for the year						
- as previously reported	24,366	165,040	11,521	15,268	–	216,195
- prior year adjustment	(1,209)	1,161	(2)	50	–	–
- as restated	23,157	166,201	11,519	15,318	–	216,195
Disposals	(3,044)	(4,874)	(1,397)	(5,471)	–	(14,786)
Impairment loss	–	28,029	–	–	–	28,029
Balance at 30 June 2010 and 1 July 2010						
- as previously reported	120,526	866,323	40,100	41,712	–	1,068,661
- prior year adjustment	(1,209)	1,161	(2)	50	–	–
- as restated	119,317	867,484	40,098	41,762	–	1,068,661
Net carrying amount						
At the end of the year	569,536	787,181	28,640	42,970	162,972	1,591,299

14. Land use rights

	Group	
	2011	2010
	Rmb'000	Rmb'000
Cost		
At 30 June and 1 July	238,686	240,611
Additions	36,713	–
Reversal of over accrual in prior years	–	(1,925)
Reclass to property, plant and equipment	(1,770)	–
At 30 June	273,629	238,686
Accumulated amortisation		
At 30 June and 1 July	26,883	22,082
Amortisation charge for the year	4,986	4,801
Reclassification to fixed assets	(90)	–
At 30 June	31,779	26,883
Net carrying amount		
At 30 June	241,850	211,803

Land use rights have a remaining amortisation period of approximately 39.33 to 50.00 years (2010: 40.33 to 47.77 years) as at 30 June 2011.

15. Intangible assets – Computer software

	Group	
	2011	2010
	Rmb'000	Rmb'000
Cost		
At 30 June and 1 July	2,892	1,742
Additions	1,882	1,150
At 30 June	4,774	2,892
Accumulated amortisation		
At 30 June and 1 July	863	480
Amortisation charge for the year	946	383
At 30 June	1,809	863
Net carrying amount		
At 30 June	2,965	2,029

Computer software has a remaining amortisation period of approximately 1.92 to 4.50 years (2010: 2.92 to 4.83 years) as at 30 June 2011.

16. Deferred tax assets/(liabilities)

Deferred tax assets/(liabilities) arise as a result of:

	Group	
	2011	2010
	Rmb'000	Rmb'000
Deferred tax assets		
Differences in depreciation	17,491	18,693
Differences in amortisation	1,413	1,409
Provisions	127,715	71,302
Other timing differences	4,784	5,703
	151,493	97,107
Deferred tax liabilities		
Withholding tax on undistributed profits by PRC subsidiaries*	(82,721)	(109,007)

* On 22 February 2008, the State Administration of Taxation of China issued a circular Caishui [2008] No.001, which imposes withholding tax on distribution of dividends from post 1 January 2008 profits to foreign investors. Accordingly, no deferred tax liabilities arise from undistributed profits of the Company's PRC subsidiaries accumulated up till 31 December 2007. Provision for deferred tax liabilities however, is required to the extent per FRS 12.39 on profits accumulated from 1 January 2008 onwards.

Unutilised tax losses

At balance sheet date, the Group has tax losses of approximately Rmb 21,232,000 (2010: Rmb 19,795,000) that are available for offset against future taxable profits of the companies in which the losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with the relevant provisions of the tax legislation of the respective countries in which the companies operate.

17. Inventories

	Group	
	2011	2010
	Rmb'000	Rmb'000
Balance sheet:		
Raw materials	160,131	151,661
Semi-finished goods	28,124	68,265
Finished goods	130,930	161,724
Total inventories at lower of cost and net realisable value	319,185	381,650
Statement of comprehensive income:		
Inventories recognised as an expense in cost of sales	2,011,078	1,466,667
Inclusive of the following charge:		
- Inventories written-down	41,314	2,165

18. Trade, bills and other receivables

	Group		Company	
	2011	2010	2011	2010
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Trade receivables	230,785	271,064	–	–
Bills receivables	4,077	9,547	–	–
Other receivables and deposits	25,994	33,790	–	–
Due from subsidiary (non-trade)	–	–	526,694	878,658
	260,856	314,401	526,694	878,658

Trade receivables

	Group	
	2011	2010
	Rmb'000	Rmb'000
Trade receivables	257,369	333,243
Less: allowance for doubtful trade receivables	(26,584)	(62,179)
	230,785	271,064

The Group's trade receivables that are impaired at the balance sheet date and the movement of the allowance accounts used to record the impairment are as follows:

	Group	
	2011	2010
	Rmb'000	Rmb'000
Trade receivables – nominal amounts	26,584	62,179
Less: Allowance for impairment	(26,584)	(62,179)
At end of financial year	–	–
At beginning of financial year	62,179	65,836
Write back for the financial year	(20,511)	(14,445)
Allowance for the financial year	11,229	15,079
Write off against allowance	(26,313)	(4,291)
At end of financial year	26,584	62,179

Trade receivables that are individually determined to be impaired at the balance sheet date relate to debtors that are in financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements. Trade receivables are non-interest bearing and are normally settled on 90 to 180 days' terms. They are recognised at their original invoiced amounts which represent their fair values on initial recognition.

18. Trade, bills and other receivables (cont'd)

Receivables that are past due but not impaired

The Group has trade receivables amounting to approximately Rmb 66,821,000 (2010: Rmb 80,374,000) that are past due but not impaired at the balance sheet date. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	Group	
	2011	2010
	Rmb'000	Rmb'000
Trade receivables past due:		
Less than 30 days	21,150	42,951
30 to 60 days	19,295	28,328
60 to 90 days	18,274	5,537
More than 90 days	8,102	3,558
At end of financial year	66,821	80,374

Bills receivables

Bills receivables are non-interest bearing and are normally settled on 90 to 180 days' terms.

Due from subsidiary (non-trade)

These amounts are unsecured, non-interest bearing and are repayable on demand.

19. Trade and other payables

	Group		Company	
	2011	2010	2011	2010
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Trade payables	224,427	287,526	–	–
Bills payables	54,570	49,720	–	–
Due to directors	3,161	2,217	3,161	2,217
Due to subsidiaries (non-trade)	–	–	–	226
Deposits from distributors	54,147	44,614	–	–
Other payables	210,372	224,448	–	–
Total trade and other payables	546,677	608,525	3,161	2,443

Trade payables

Trade payables are non-interest bearing and are normally settled on 30 to 90 days' terms.

Bills payables

Bills payables to banks are interest-free and have maturity periods ranging from 90 to 180 days. Certain bills payables to banks amounting to Rmb 2,154,000 (2010: Rmb Nil) and Rmb Nil (2010: Rmb 13,000,000) are secured by security deposits and corporate guarantees from Henan Hsu Fu Chi Foods Co., Ltd. and Hsu Fu Chi Holdings Ltd. respectively.

Due to subsidiaries (non-trade)/due to directors

These amounts are unsecured, non-interest bearing and are repayable on demand.

Amounts due to directors comprise accrued directors' remuneration.

20. Other liabilities

	Group		Company	
	2011	2010	2011	2010
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Advanced payment from customers	29,708	23,633	–	–
Accrued payroll	97,362	199,668	–	–
Accruals for land use rights	31,478	12,774	–	–
Accrued operating expenses	341,051	269,869	1,851	3,192
Accruals for purchase of property, plant and equipment	10,989	5,973	–	–
Provision for PRC statutory welfare expenses	22,823	19,523	–	–
Provision for sales return	16,658	10,435	–	–
Provision on potential loss arising from exchange of goods with distributors	3,512	1,014	–	–
Provision for other taxes	9,353	–	–	–
	562,934	542,889	1,851	3,192

21. Short-term bank loans

	Group		Company	
	2011	2010	2011	2010
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Current:				
- USD loan at SIBOR + 0.70% p.a.	487,770	–	–	–
- USD loan at SIBOR + 0.75% p.a.	33,002	–	–	–
	520,772	–	–	–

USD loan at SIBOR + 0.70% p.a.

This loan is secured by corporate guarantee provided by the Company and its subsidiaries, Hsu Fu Chi Holdings Ltd and Hsu Fu Chi International Holding Limited. It is repayable within 180 days.

USD loan at SIBOR + 0.75% p.a.

This loan is secured by corporate guarantee provided by the Company and is repayable within 180 days.

22. Provision for retirement benefits

	Group 2011 Rmb'000	Group 2010 Rmb'000
Retirement benefit obligations	170,190	–

Retirement benefit plans

The Group has two retirement benefit plans which are both unfunded and the related costs are assessed by professional actuaries. The benefit payable is dependent on the employee's length of service and average salary of the employee's last year of service.

The following tables summarise the components of benefit expense recognised in profit or loss and amounts recognised in the balance sheets for the plans.

Reconciliation of defined benefit obligations

	Group 2011 Rmb'000	Group 2010 Rmb'000
Defined benefit obligations as at 1 July 2010	–	–
Current service cost	27,560	–
Interest cost	4,025	–
Past service cost	138,605	–
Defined benefit obligations as at 30 June 2011	170,190	–

Principal financial assumptions

	2011 %	2010 %
Discount rate	1.8 – 3.9	–
Future salary increases	4.0 – 16.9	–
Estimated employee turnover rates (for various age groups)	0.0 – 0.3	–

Assumptions regarding mortality rates are based on publicly available mortality tables.

23. Share capital

	Group and Company Number of shares '000	Group and Company Value S$'000
Authorised:		
At beginning and end of year		
- 3,000,000,000 ordinary shares of S$0.01 each	3,000,000	30,000
Issued and fully paid:		
At beginning and end of year		
- 795,000,000 ordinary shares of S$0.01 each	795,000	7,950*

* Equivalent to RMB 40,124,000

24. Reserve fund

In accordance with the relevant laws and regulations of the PRC, companies in the PRC are required to set aside a general reserve fund by way of appropriation from their statutory net profit, as reported in the PRC statutory financial statements, at a rate to be determined by the board of directors of the Company. The board of directors have decided that in general, 10% of the statutory net profit, as reported in the PRC statutory financial statements, of the subsidiaries in the PRC be appropriated each year to the general reserve fund. Accordingly, the appropriations made for the financial years ended 30 June 2011 and 2010 are determined based on actual appropriations to the reserve fund as reported in the PRC statutory financial statements of the PRC subsidiaries for the relevant financial periods.

The reserve fund may be used to offset accumulated losses or increase the registered capital of these subsidiaries, subject to the approval from the PRC authorities and are not available for dividend distribution to the shareholders.

25. Dividends

	Group and Company	
	2011	2010
	Rmb'000	Rmb'000
Declared and paid during the financial year:		
Dividends on ordinary shares		
Final exempt (one-tier) dividend for 2010: Rmb 75 cents (2009: Rmb29 cents) per share	596,250	230,550
Proposed but not recognised as a liability as at 30 June:		
Dividends on ordinary shares, subject to shareholders' approval at the AGM :		
- First and final exempt (one-tier) dividend for 2011: Rmb Nil cents (2010: Rmb 75 cents) per share	–	596,250

26. Segment information

For management purposes, the Group is organised into business segments based on their product categories, and has three reportable operating segments as follows:

(i) *Candy Products*

This category consists primarily of candies, jelly, pudding and chocolate products are also included under this category as secondary products.

(ii) *Cake and Cookie Products*

The category consists mainly of different types of cakes and cookies produced under the Hsu Fu Chi brand. The major products under this category are crisps with fillings, oat crisps and flapjacks.

(iii) *Sachima Products*

The major products under this category are egg Sachima, egg yolk Sachima, egg crisp Sachima and Sesame Sachima. Sachima is one of the best-known products of the Group.

Except as indicated above, no operating segments have been aggregated to form the above reportable operating segments.

26. Segment information (cont'd)

Geographical segments

The Group's revenue by geographical segments is based on the location of its customers. With the exception of the People's Republic of China ("PRC"), no other individual country contributed materially to the consolidated turnover during the financial years ended 30 June 2011 and 2010.

Allocation basis

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly other operating income and expenses, financial income and expenses and tax expense which are managed on a group basis.

Group assets and liabilities are managed on a group basis and therefore cannot be directly attributable to individual segments. Accordingly, it is not meaningful to disclose such assets, liabilities and capital expenditure by business segments.

Information about a major customer

The Group does not have any major customer who contributes to 10% or more of its revenues for the financial years ended 30 June 2011 and 2010.

Business segments

	Candy Products Rmb'000	Cake and Cookie Products Rmb'000	Sachima Products Rmb'000	Total Rmb'000
Group				
FY 2011				
Revenue from external customers	2,665,134	1,502,459	989,908	5,157,501
Gross profit	1,164,507	643,368	390,479	2,198,354
Unallocated expenses, net				(1,406,182)
Financial income				34,179
Financial expenses				(4,141)
Profit before tax				822,210
Income tax				(145,905)
Net profit attributable to shareholders				676,305
Allowance for inventory obsolescence	35,698	3,854	1,762	41,314
Write-back of doubtful trade receivables				(9,282)
Depreciation of property, plant and equipment				223,445
Amortisation of land use right				4,986
Amortisation of intangible assets				946
Impairment of plant and machinery				23,298

26. Segment information (cont'd)

Business segments (cont'd)

	Candy Products Rmb'000	Cake and Cookie Products Rmb'000	Sachima Products Rmb'000	Total Rmb'000
Group				
FY 2010				
Revenue from external customers	2,178,186	1,355,945	771,525	4,305,656
Gross profit	1,002,446	630,224	393,018	2,025,688
Unallocated expenses, net				(1,281,835)
Financial income				12,961
Financial expenses				(2,341)
Profit before tax				754,473
Income tax				(152,278)
Net profit attributable to shareholders				602,195
Allowance for inventory obsolescence	1,055	784	326	2,165
Allowance for doubtful trade receivables				634
Depreciation of property, plant and equipment				216,195
Amortisation of land use right				4,801
Amortisation of intangible assets				383
Impairment of plant and machinery				28,029

27. Commitments

(a) *Capital expenditure and other commitments contracted for as at balance sheet dates but not recognised in the financial statements is as follows:*

	Group 2011 Rmb'000	Group 2010 Rmb'000
Capital expenditure		
Commitments in respect of purchase of property, plant and equipment	66,315	129,549
Commitments in respect of contracts entered into for construction-in-progress	198,921	35,400

27. Commitments (cont'd)

(b) Operating lease commitments

The Group has operating lease agreements for its office premises, warehouses and staff quarters in the PRC and office premises in Hong Kong. Certain of these leases have options for renewal. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing. Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	Group		Company	
	2011 Rmb'000	2010 Rmb'000	2011 Rmb'000	2010 Rmb'000
Not later than 1 year	38,711	30,252	–	–
1 year through 5 years	40,534	28,322	–	–
More than 5 years	964	6,581	–	–
	80,209	65,155	–	–

28. Financial risk management objectives and policies

The Group is exposed to financial risks arising from its operations and use of financial instruments. The Group's principal financial instruments comprise bills payable, cash and short term deposits. The main purpose of these financial instruments is to raise funds for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

It is, and has been throughout the financial year under review, the Group's policy that no trading in derivative financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk (both fair value and cash flow), liquidity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from their floating rate cash at bank balances for the financial year. The Group's policy is to obtain the most favourable interest rates available.

Surplus funds are placed with reputable banks.

<u>Sensitivity analysis for interest rate risk</u>

At the balance sheet date, if RMB interest rates had been 100 basis points (2010: 100 basis points) lower/higher with all other variables held constant, the Group's profit net of tax would have been Rmb 4,680,000 (2010: Rmb 3,905,000) lower/higher, arising mainly as a result of lower/higher interest income/expenses on floating rate cash at bank balances.

28. Financial risk management objectives and policies (cont'd)

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group's liquidity risk management policy is to maintain sufficient liquid financial assets and stand-by credit facilities with several different banks. In addition, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The table below summarises the maturity profile of the Group's and Company's financial assets and financial liabilities at the balance sheet date based on contractual undiscounted payments.

	1 year or less Rmb'000	1 to 5 years Rmb'000	Total Rmb'000
2011			
Group			
Financial assets:			
Trade, bills and other receivables	260,856	–	260,856
Cash and bank balances	2,045,768	–	2,045,768
	2,306,624	–	2,306,624
Financial liabilities:			
Trade and other payables	546,677	–	546,677
Accrued payroll (Note 20)	97,362	–	97,362
Accruals for land use rights (Note 20)	31,478	–	31,478
Accrued operating expenses (Note 20)	341,051	–	341,051
Accruals for purchase of property, plant and equipment (Note 20)	10,989	–	10,989
Short-term bank loans	520,772	–	520,772
	1,548,329	–	1,548,329
Total net undiscounted financial assets	758,295	–	758,295

28. Financial risk management objectives and policies (cont'd)

(b) Liquidity risk (cont'd)

	1 year or less Rmb'000	1 to 5 years Rmb'000	Total Rmb'000
2011			
Company			
Financial assets:			
Trade, bills and other receivables	526,694	–	526,694
Cash and bank balances	3,357	–	3,357
	530,051	–	530,051
Financial liabilities:			
Trade and other payables	3,161	–	3,161
Accrued operating expenses (Note 20)	1,851	–	1,851
	5,012	–	5,012
Total net undiscounted financial assets	525,039	–	525,039
2010			
Group			
Financial assets:			
Trade, bills and other receivables	314,401	–	314,401
Cash and bank balances	1,291,828	–	1,291,828
	1,606,229	–	1,606,229
Financial liabilities:			
Trade and other payables	608,525	–	608,525
Accrued payroll (Note 20)	199,668	–	199,668
Accruals for land use rights (Note 20)	12,774	–	12,774
Accrued operating expenses (Note 20)	269,869	–	269,869
Accruals for purchase of property, plant and equipment (Note 20)	5,973	–	5,973
	1,096,809	–	1,096,809
Total net undiscounted financial assets	509,420	–	509,420

28. Financial risk management objectives and policies (cont'd)

(b) Liquidity risk (cont'd)

	1 year or less Rmb'000	1 to 5 years Rmb'000	Total Rmb'000
2010			
Company			
Financial assets:			
Trade, bills and other receivables	878,658	–	878,658
Cash and bank balances	2,968	–	2,968
	881,626	–	881,626
Financial liabilities:			
Trade and other payables	2,443	–	2,443
Accrued operating expenses (Note 20)	3,192	–	3,192
	5,635	–	5,635
Total net undiscounted financial assets	875,991	–	875,991

(c) Foreign currency risk

The Group has transactional currency exposures arising from sales that are denominated in a currency other than the respective functional currencies of Group entities, primarily Renminbi (RMB) and Hong Kong Dollar (HKD). The Group's trade receivable balances at the balance sheet date have similar exposures. During the financial year ended 30 June 2011, approximately 0.35% (2010: 0.23%) of the Group's sales was denominated in HKD.

The Group and Company also hold cash and cash equivalents denominated in foreign currencies for working capital purposes. At the balance sheet date, such foreign currency balances, mainly in USD, HKD and SGD, amounted to $31,299,000, $63,943,000 and $44,445,000 respectively.

The Group's short-term loans are also denominated in USD.

The Group has not used any financial instrument to hedge its foreign currency risk as the risk exposure is not considered to be significant.

The Group's operations are primarily conducted in the PRC in Rmb.

Currently, the PRC government imposes control over foreign currencies. Rmb, the official currency in the PRC, is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions.

Payments for imported materials or services, which are outside of the PRC, are subject to the availability of foreign currency which depends on the foreign currency denominated earnings of the enterprises. Exchanges of Rmb for foreign currency must be arranged through the People's Bank of China or other authorized financial institutions and is granted to enterprises in the PRC for valid reasons such as purchase of imported materials and remittance of earnings. While conversion of Rmb into Singapore dollars or other currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be affected at all times.

28. Financial risk management objectives and policies (cont'd)

(c) *Foreign currency risk (cont'd)*

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit net of tax to a reasonably possible change in the USD, HKD and SGD exchange rates (against Rmb), with all other variables held constant.

	Group	
	2011	2010
	Profit net of tax	Profit net of tax
	Rmb'000	Rmb'000
USD – strengthened 3% (2010: 3%)	(12,282)	828
USD – weakened 3% (2010: 3%)	12,282	(828)
HKD – strengthened 3% (2010: 3%)	1,606	121
HKD – weakened 3% (2010: 3%)	(1,606)	(121)
SGD – strengthened 3% (2010: 3%)	1,218	1,549
SGD – weakened 3% (2010: 3%)	(1,218)	(1,549)

(d) *Credit risk*

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including cash and cash equivalents), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored closely on an ongoing basis.

Exposure to credit risk

At the balance sheet date, the Group's and the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the balance sheets.

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the industry sector profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables at the balance sheet date is as follows:

	Group			
	2011		2010	
	Rmb'000	% of total	Rmb'000	% of total
By industry sectors:				
Supermarkets	248,415	96.5	269,277	80.8
Others (including distributors, mini-marts or provision shops)	8,954	3.5	63,966	19.2
	257,369	100.0	333,243	100.0

At the balance sheet date, approximately 42% (2010: 25%) of the Group's trade receivables were due from 5 major customers located in the PRC.

28. Financial risk management objectives and policies (cont'd)

(d) *Credit risk (cont'd)*

Financial assets that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 18.

29. Classification of financial instruments and their fair values

(a) *Classification of financial assets and liabilities*

The carrying amount by category of financial assets and liabilities are as follows:

	2011 Rmb'000	2010 Rmb'000
Loan and receivables		
Trade, bills and other receivables	260,856	314,401
Cash and bank balances	2,045,768	1,291,828
Total	2,306,624	1,606,229
Financial liabilities carried at amortised cost		
Trade and other payables	546,677	608,525
Accrued payroll (Note 20)	97,362	199,668
Accruals for land use rights (Note 20)	31,478	12,774
Accrued operating expenses (Note 20)	341,051	269,869
Accruals for purchase of property, plant and equipment (Note 20)	10,989	5,973
Short-term bank loans (Note 21)	520,772	–
Total	1,548,329	1,096,809

(b) *Fair values*

Financial instruments whose carrying amount approximate fair value

Management has determined that the carrying amounts of cash and short term deposits, current trade and other receivables, current trade and other payables, short-term bank loans, based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature or are repriced frequently.

During the current and previous financial year, no amount has been recognised in the statement of comprehensive income in relation to the change in fair value of financial assets or financial liabilities estimated using a valuation technique.

30. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the financial years ended 30 June 2011 and 2010.

As disclosed in Note 24, the Group's PRC subsidiaries are required by the Foreign Enterprise Law of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the PRC subsidiaries for the financial years ended 30 June 2011 and 2010.

The Group monitors capital using a gearing ratio, which is total debt divided by total capital plus total debt. The Group includes within total debt, trade and other payables and other liabilities. Capital includes equity attributable to the equity holders of the parent less the restricted statutory reserve fund.

	Group and Company	
	2011	2010
	Rmb'000	Rmb'000
Trade and other payables (Note 19)	546,677	608,525
Other liabilities (Note 20)	562,934	542,889
Short-term bank loans (Note 21)	520,772	–
Total debt	1,630,383	1,151,414
Equity attributable to equity holders of the Company	2,937,593	2,857,556
Less: Reserve fund	(376,652)	(282,193)
Total capital	2,560,941	2,575,363
Capital and total debt	4,191,324	3,726,777
Gearing ratio	38.9%	30.9%

31. Reclassification of comparatives

The Group has reclassified the following amounts to better reflect the nature of the balances.

		Group	
	As previously reported 30.06.10	Adjustment	As restated 30.06.10
	Rmb'000	Rmb'000	Rmb'000
Balance sheet			
Property, plant and equipment			
Buildings	592,971	(23,435)	569,536
Plant and machinery	763,864	23,317	787,181
Office equipment	28,641	(1)	28,640
Motor Vehicles	42,851	119	42,970

32. Subsequent events

(i) On 11 July 2011, the Company and Nestle S.A ("Nestle") jointly announced ("the Joint Announcement") the proposed establishment of a joint venture between Nestle and the current majority shareholders of the Company, namely Mr Hsu Chen, Mr Hsu Hang, Mr Hsu Pu and Mr Hsu Keng (the "Majority Shareholders").

The Company and Nestle had also entered into an Implementation Agreement for Nestle to acquire the Scheme Shares representing approximately (i) 43.52% of all the Shares by way of a scheme of arrangement (the "Scheme") under Section 86 of the Cayman Companies Law (2010 revision) and in accordance with the Singapore Code on Takeovers and Mergers and (ii) subject to the Scheme becoming effective, Nestle will acquire a 16.48% interest from the Majority Shareholders.

On 26 September 2011, the Court Meeting convened by an order of the Grand Court of the Cayman Islands was attended either personally or by proxy by 18 Scheme Shareholders, representing 304,275,386 Scheme Shares in the Company, of which 18 Scheme Shareholders representing a majority in number and approximately 93.6% of the Scheme Shares in the Company voted in favour of the resolution to approve the Scheme.

Subject to the Scheme being sanctioned by the Grand Court of the Cayman Islands and the satisfaction (or, where applicable, waiver) of all the other Scheme Conditions (including without limitation the approval by Ministry of Commerce, PRC), the Scheme shall become effective.

Upon the proposed transactions becoming effective, Nestle will own 60% of the issued shares of the Company with the remaining 40% owned indirectly by the Majority Shareholders. Thereafter, the Company will apply to be delisted from the Official List of the Singapore Exchange Securities Trading Limited.

(ii) On 13 July 2011, the Company has announced the de-registration of Top Ocean Trading Limited ("Top Ocean"), an indirect wholly-owned subsidiary of the Company. The de-registration of Top Ocean does not have any material impact on the Company's financial statements.

33. Authorisation of financial statements

The consolidated financial statements for the year ended 30 June 2011 were authorised for issue in accordance with a resolution of the directors on 27 September 2011.

Buildings

(a) The particulars of the buildings owned by the Group at Factory No. 3 as of 30 June 2010 are set out below:

Location	Certificate of Real Estate Ownership No.	Tenure	Gross Area (sq.m.)	Use of Property
Yinzhu Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C1888534	Till March 2054	6,600(1)	Industrial use
Yinzhu Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C1888535	Till March 2054	6,100(1)	Industrial use
Yinzhu Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C1888537	Till March 2054	3,100(1)	Industrial use
Yinzhu Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C1888538	Till March 2054	3,000(1)	Industrial use
Yinzhu Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C1888539	Till March 2054	18,400(1)	Industrial use
Yinzhu Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C1888540	Till March 2054	8,100(1)	Industrial use
Yinzhu Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	0200156407(2)	N/A	5,900(1)	N/A
The Third Ring Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C4260769	Till February 2054	5,900(1)	Industrial use
The Third Ring Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C4260770	Till February 2054	9,100(1)	Industrial use
Kengweiling Area, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C4260800	Till February 2054	3,900(1)	Industrial use
The Third Ring Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C4269401	Till February 2054	4,400(1)	Industrial use
Kengweiling Area, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C4269403	Till February 2054	700(1)	Industrial use
Kengweiling Area, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C4269405	Till February 2054	2,100(1)	Industrial use
Kengweiling Area, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	C4269406	Till February 2054	11,400(1)	Industrial use

(b) The material property interests leased by the Group at Factory No. 1 are as set out below:

Location	Tenure	Gross Area (sq.m.)	Use of Property	Lessor
Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, PRC	Till 31 March 2012	22,000[(3)]	Dormitory, warehouse	Zhouwu Administrative District, Dongcheng, Dongguan, Guangdong, PRC
Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, PRC	Till 11 June 2055	400[(1)]	Dormitory	Zhouwu Administrative District, Dongcheng, Dongguan, Guangdong, PRC
Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, PRC	Till 30 June 2052	200	Dormitory	Zhouwu Administrative District, Dongcheng, Dongguan, Guangdong, PRC

Notes:

(1) These numbers have been rounded down to the nearest hundred.

(2) Original Land Certificate (No. 0384251) revoked due to de-registration of Dongguan Hsu Fu Chi and land ownership transfer to Dongguan Hsu Chi.

(3) Consolidated three land leases (with areas of 12,000m^2, 9,800m^2, and 200m^2) in one after their expiry on 3 March, 2011

GROUP'S LAND AND BUILDINGS

Land

Location	Certificate of State-owned Land Use Right No.	Tenure	Gross Area (sq.m.)	Use of Property
Land of Factory No.3				
Kengweiling Area, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	147 of 2004	Till February 2054	14,600(1)	Industrial use
Kengweiling Area, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	148 of 2004	Till February 2054	14,900(1)	Industrial use
Yinzhu Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	149 of 2004	Till March 2054	28,800(1)	Industrial use
Third Ring Road, Zhouwu Village, Dongcheng District, Dongguan, Guangdong, PRC	150 of 2004	Till February 2054	16,900(1)	Industrial use
Zhouwu Village Area, Dongcheng District, Dongguan, Guangdong, PRC	319 of 2004	Till March 2054	9,700(1)	Industrial use
Land of the General Factory				
Sangyuan Village, Zhouwu Community, Dongcheng District, Dongguan, Guangdong, PRC	580 of 2006	Till May 2056	150,900(1)	Industrial use
Land of Factory No. 5				
Shichang Road, Zhouwu Industrial District, Dongcheng, Dongguan, Guangdong, PRC	46 of 2008	Till June 2057	157,200(1)	Industrial use
Land of Chengdu Hsu Chi Food Co. Ltd.				
Chengdu Economy and Technology Development Zone Chengdu, Sichuan Province, PRC	81280 of 2007	Till August 2056	41,300(1)	Industrial use
Land of Shenyang Sale office				
Xingcheng Road, Shenyang Huishan Agricultural High and New Technology Development Zone Shenyang, Liaoning Province PRC	1 of 2007	Till May 2056	10,000	Industrial use
Land of Huzhou Hsu Chi Food Co. Ltd				
Fenghuang West, Huzhou Zhejiang, PRC	9-11691 of 2007	Till December 2056	46,500(1)	Industrial use
Land of Huzhou Hsu Fu Chi Food Co. Ltd				
Fenghuang West, Huzhou Zhejiang, PRC	9-11694 of 2007	Till December 2056	46,600(1)	Industrial use
Land of Henan Hsu Fu Chi Food Co. Ltd				
Zhumadian City, Sui Peng County, Hehan Province, PRC	15 of 2009	Till January 2059	333,330(1)	Industrial use
Land of Dongguan Hsu Chi Food Co. Ltd				
Fenggang Logistic & Transport Subsidiary, JinLong Industrial District, QingXi County, Dongguan, Guangdong Province PRC	431 of 2007	Till March 2055	7,100(1)	Industrial use
Land of Dongguan Hsu Chi Food Co. Ltd				
Sangyuan Village, Zhouwu Community, Dongcheng District, Dongguan, Guangdong, PRC	1900020200724 of 2010	Till May 2060	92,160(1)	Industrial use

Notes:

(1) These numbers have been rounded down to the nearest hundred.

No. of shares issued : 795,000,000
Class of shares : Ordinary share
Voting rights : One vote per share

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1- 999	8	2.75	1,382	0.00
1,000 - 10,000	202	69.42	594,000	0.07
10,001 - 1,000,000	64	21.99	5,234,206	0.66
1,000,001 AND ABOVE	17	5.84	789,170,412	99.27
TOTAL	291	100.00	795,000,000	100.00

TREASURY SHARES

Pursuant to Rule 1207(9)(f) of the Listing Manual of the SGX-ST, the Company does not hold any treasury shares.

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1.	UOB KAY HIAN PTE LTD	137,837,854	17.34
2.	HSU, CHEN	134,000,000	16.86
3.	SUNCOVE INVESTMENTS LTD.	120,600,000	15.17
4.	OPHIRA FINANCE LTD.	107,200,000	13.48
5.	HSU, PU	87,200,000	10.97
6.	HSBC (SINGAPORE) NOMINEES PTE LTD	76,338,851	9.60
7.	UNITED OVERSEAS BANK NOMINEES PTE LTD	31,519,726	3.96
8.	CITIBANK NOMINEES SINGAPORE PTE LTD	29,617,726	3.73
9.	DBS NOMINEES PTE LTD	15,612,981	1.96
10.	DB NOMINEES (S) PTE LTD	13,825,806	1.74
11.	SUN FORTUNE INVESTMENTS LIMITED	11,675,000	1.47
12.	CROWN EAGLE VENTURES INTERNATIONAL LTD	7,035,000	0.88
13.	RAFFLES NOMINEES (PTE) LTD	5,623,500	0.71
14.	DBSN SERVICES PTE LTD	4,649,646	0.58
15.	YU, HUNG-HSIN	3,800,000	0.48
16.	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	1,457,322	0.18
17.	CHAN, WU-YANG	1,177,000	0.15
18.	BNP PARIBAS SECURITIES SERVICES SINGAPORE PTE LTD	922,206	0.12
19.	HU, CHIA - HSUN	650,000	0.08
20.	LIN, SHIH-MING	345,000	0.04
	TOTAL :	791,087,618	99.50

SUBSTANTIAL SHAREHOLDERS

(As recorded in the Register of Substantial Shareholders)

	Direct Interest	%	Deemed Interest	%
Hsu Chen	134,000,000	16.86	–	–
Hsu Hang [1]	–	–	107,200,000	13.48
Hsu Keng [2]	–	–	120,600,000	15.17
Hsu Pu	87,200,000	10.97	–	–
Ophira Finance Ltd	107,200,000	13.48	–	–
Suncove Investments Ltd	120,600,000	15.17	–	–
Arisaig Asia Consumer Fund Limited	71,176,000	8.95	–	–
Arisaig Partners (Mauritius) Limited [3]	–	–	71,176,000	8.95
Arisaig Partners (Asia) Pte Ltd [3]	–	–	71,176,000	8.95
Arisaig Partners (Holdings) Ltd [3]	–	–	71,176,000	8.95
Skye Partners Limited [3]	–	–	71,176,000	8.95
Perivoli Trust [3]	–	–	71,176,000	8.95
Lindsay Cooper [3]	–	–	71,176,000	8.95
Sannox Trust [3]	–	–	71,176,000	8.95
Star Candy Ltd	117,738,854	14.81	–	–
Baring Private Equity Asia IV Holding (12) Limited [4]	–	–	131,062,854	16.49
The Baring Asia Private Equity Fund IV, L.P. [4]	–	–	131,062,854	16.49
Baring Private Equity Asia GP IV, L.P. [4]	–	–	131,062,854	16.49
Baring Private Equity Asia GP IV Limited [5]	–	–	131,062,854	16.49
Jean Eric Salata [6]	–	–	131,062,854	16.49
Nestle S.A. [7]	–	–	131,000,000	16.48

Notes:

1. Mr Hsu Hang is deemed interested in the shares held by Ophira Finance Ltd, of which he is the sole shareholder.

2. Mr Hsu Keng is deemed interested in the shares held by Suncove Investments Ltd, of which he is the sole shareholder.

3. Arisaig Partners (Mauritius) Limited ("AP Mauritius"), being the fund manager of Arisaig Asia Consumer Fund Limited ("Asia Consumer Fund"), is deemed to be interested in the shares of the Company held by Asia Consumer Fund.

   Arisaig Partners (Asia) Pte Ltd ("AP Asia"), being the investment adviser of Asia Consumer Fund is deemed to be interested in the shares of the Company held by Asia Consumer Fund.

   Arisaig Partners (Holdings) Ltd ("AP Holdings") has a controlling interest in AP Mauritius and AP Asia, and is therefore deemed interested in all the shares of the Company in which AP Mauritius and AP Asia are deemed interested in.

   Skye Partners Limited ("SPL") has a controlling interest in AP Holdings, and SPL is therefore deemed interested in all the shares of the Company in which AP Holdings is deemed interested in.

   Perivoli Trust, Lindsay Cooper and Sannox Trust each has 33.33% interest in SPL, and each is therefore deemed interested in all the shares of the Company in which SPL is deemed interested in.

4. Star Candy Ltd is a wholly-owned subsidiary of Baring Private Equity Asia IV Holding (12) Limited ("BPEA(12)").

   The Baring Asia Private Equity Fund IV, L.P. ("BPE Fund IV L.P.") owns approximately 99% of BPEA(12).

   BPE GP I is the general partner of BPE Fund IV L.P.

   By virtue of Section 7 of the Companies Act, Chapter 50 of Singapore, BPE GP I is deemed to be interested in the shares held by Star Candy Ltd.

5. Baring Private Equity Asia GP IV Limited (“BPE GP II”) is the general partner of BPE GPI.

   By virtue of Section 7 of the Companies Act, Chapter 50 of Singapore, BPE GP II is deemed to be interested in the shares held by Star Candy Ltd.

6. Jean Eric Salata is the holder of all the issued share capital of BPE GP II.

   By virtue of Section 7 of the Companies Act, Chapter 50 of Singapore, Jean Eric Salata is deemed to be interested in the shares held by Star Candy Ltd. Jean Eric Salata disclaims beneficial ownership of the shares owned by Star Candy Ltd.

7. Nestle S.A. has entered into a conditional share purchase agreement dated 11 July 2011 to, amongst others, acquire a total of 131,000,000 shares (“sale shares”) from Mr Hsu Chen, Mr Hsu Pu, Suncove Investments Ltd and Ophira Finance Ltd (the “Sellers”).

PERCENTAGE OF SHAREHOLDINGS IN PUBLIC’S HANDS

As at 20 September 2011, approximately 17.51% of the Company’s shares are held in the hands of the public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST.

NOTICE IS HEREBY GIVEN that the Annual General Meeting of HSU FU CHI INTERNATIONAL LIMITED (the "Company") will be held at Hilton Singapore Hotel, Vista 1, Level 3, 581 Orchard Road, Singapore 238883 on Friday, 28 October 2011 at 3.30 pm for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the Audited Accounts of the Company for the year ended 30 June 2011 together with the Auditors' Report thereon. (Resolution 1)

2. To re-elect the following Directors retiring pursuant to Article 86(1) of the Company's Articles of Association:

   Mr Lim Hock San (Resolution 2)
   Mr Hsu Hang (Resolution 3)
   Mr Hu Chia-Hsun (Resolution 4)

   Mr Lim Hock San will, upon re-election as a Director of the Company, remain as the Chairman of the Audit Committee and a member of the Nominating and Remuneration Committees respectively and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST").

3. To approve the payment of Directors' fees of S$606,000 for the year ended 30 June 2011 (2010: S$456,000).
   [See Explanatory Note (i)] (Resolution 5)

4. To approve the payment of Directors' fees of S$608,000 for the year ending 30 June 2012.
   [See Explanatory Note (ii)] (Resolution 6)

5. To re-appoint Ernst & Young LLP as the Company's Auditors and to authorise the Directors to fix their remuneration. (Resolution 7)

6. To transact any other ordinary business which may properly be transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

7. SHARE ISSUE MANDATE

   That pursuant to Rule 806 of the Listing Manual of the SGX-ST, authority be and is hereby given to the Directors of the Company to issue shares ("Shares") whether by way of rights, bonus or otherwise, and/or make or grant offers, agreements or options (collectively, "Instruments") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares at any time and upon such terms and conditions and to such persons as the Directors may, in their absolute discretion, deem fit provided that:

   (a) the aggregate number of Shares to be issued pursuant to this Resolution (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed fifty percent (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company at the time of the passing of this Resolution, of which the aggregate number of Shares and convertible securities to be issued other than on a pro rata basis to all shareholders of the Company shall not exceed twenty percent (20%) of the total number of issued shares (excluding treasury shares) in the capital of the Company;

   (b) for the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (a) above, the total number of issued shares (excluding treasury shares) shall be based on the total number of issued shares (excluding treasury shares) of the Company as at the date of the passing of this Resolution, after adjusting for:

      (i) new Shares arising from the conversion or exercise of convertible securities;

(ii) new Shares arising from exercising share options or vesting of Share awards outstanding or subsisting at the time this Resolution is passed; and

(iii) any subsequent bonus issue, consolidation or subdivision of Shares;

(c) And that such authority shall, unless revoked or varied by ordinary resolution of the shareholders in general meeting, continue in force until the conclusion of the Company's next Annual General Meeting or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is earlier.
[See Explanatory Note (iii)] (Resolution 8)

By Order of the Board

Busarakham Kohsikaporn
Toh Lei Mui
Company Secretaries

Singapore
12 October 2011

Explanatory Notes on Resolutions to be passed:

(i) The increase in Directors' fees for the year ended 30 June 2011 was due to the revision of base fee for each director and additional fees for the Board Chairman and Chairman of each board committee in the course of the year.

(ii) The Ordinary Resolution 6 proposed in item 4 above, if passed, will facilitate the payment of Directors' fees during the financial year ending 30 June 2012, in which the fees are incurred. The amount shall include attendance fees for additional unscheduled meetings in connection with the proposed delisting by way of scheme of arrangement of the Company.

(iii) The Ordinary Resolution 8 proposed in item 7 above, if passed, will empower the Directors from the date of the above Meeting until the date of the next Annual General Meeting, to allot and issue Shares and convertible securities in the Company up to an amount not exceeding fifty percent (50%) of the total number of issued shares (excluding treasury shares) in the capital of the Company, of which up to twenty percent (20%) may be issued other than on a pro rata basis.

Notes:

1. A Shareholder being a Depositor whose name appears in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore) is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a Member of the Company.

2. If a Depositor wishes to appoint a proxy/proxies to attend the Meeting, then he/she must complete and deposit the Depositor Proxy Form at the office of the Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd., 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623, at least forty-eight (48) hours before the time of the Meeting.

3. If the Depositor is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.

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