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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

	2016	2015	*% of*
	RMB'M	*RMB'M*	*Change*
Revenue	**2,740.3**	2,103.5	30.3
Gross profit	**1,124.9**	590.0	90.7
Gross profit margin *(%)*	**41.1**	28.0	13.1 *(pps.)*
Earnings before interest, tax, depreciation and amortisation	**333.3**	33.4	897.9
Profit for the year (after non-controlling interests)	**212.7**	50.6	320.4
Basic earnings per share *(RMB cents)*	**17.04**	4.90	247.8
Final dividend per share *(HK$)*	**0.05**	0.03	66.7

For the year ended 31 December 2016 (the "Year 2016"), Ausnutria Dairy Corporation Ltd (the "Company") and its subsidiaries (collectively, the "Group") recorded the followings:

- Revenue amounted to RMB2,740.3 million, representing an increase of RMB636.8 million or 30.3% from RMB2,103.5 million for the year ended 31 December 2015 (the "Year 2015"). Among which revenue derived from own-branded business increased by 50.8% to RMB1,817.8 million.
- Gross profit amounted to RMB1,124.9 million, representing an increase of RMB534.9 million or 90.7% from RMB590.0 million for the Year 2015.
- Profit for the year amounted to RMB212.7 million, representing an increase of RMB162.1 million or 320.4% from RMB50.6 million for the Year 2015.
- Basic earnings per share increased from RMB4.90 cents for the Year 2015 to RMB17.04 cents, representing an increase of 247.8%.

In addition, the board (the "Board") of directors (the "Directors") of the Company has recommended the payment of a final dividend of HK$0.05 per share (Year 2015: HK$0.03) of the Company for the Year 2016.

The Board is pleased to announce the audited consolidated financial results of the Group for the Year 2016 together with the comparative figures for the Year 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**2,740,262**	2,103,534
Cost of sales		**(1,615,403)**	(1,513,568)
Gross profit		**1,124,859**	589,966
Other income and gains	5	**62,631**	45,652
Selling and distribution expenses		**(646,411)**	(497,613)
Administrative expenses		**(215,656)**	(116,281)
Other expenses		**(14,055)**	(8,907)
Finance costs	7	**(17,849)**	(16,045)
Share of profits of associates		**4,233**	7,019
Profit before tax	6	**297,752**	3,791
Income tax expense	8	**(63,756)**	(680)
PROFIT FOR THE YEAR		**233,996**	3,111
Attributable to:			
Owners of the parent		**212,672**	50,645
Non-controlling interests		**21,324**	(47,534)
		233,996	3,111
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic and diluted	9		
Basic			
– For profit for the year *(RMB cents)*		**17.04**	4.90
Diluted			
– For profit for the year *(RMB cents)*		**17.01**	4.90

	2016	2015
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**233,996**	3,111
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(28,173)**	(16,997)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	**(28,173)**	(16,997)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Remeasurement gains on the defined benefit plan	**6,835**	2,306
Income tax effect	**(1,640)**	(553)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**5,195**	1,753
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(22,978)**	(15,244)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**211,018**	(12,133)
Attributable to:		
Owners of the parent	**191,594**	36,480
Non-controlling interests	**19,424**	(48,613)
	211,018	(12,133)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	**2016** *RMB'000*	2015 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**830,891**	586,296
Prepaid land lease payments		**28,808**	1,971
Goodwill	*10*	**135,069**	72,053
Other intangible assets		**150,648**	45,679
Investments in associates		**52,103**	32,312
Deposit paid		**35,000**	–
Deferred tax assets		**154,085**	98,794
Total non-current assets		**1,386,604**	837,105
CURRENT ASSETS			
Inventories	*11*	**800,259**	579,857
Trade and bills receivables	*12*	**216,990**	185,396
Prepayments, deposits and other receivables		**194,834**	164,097
Tax recoverable		**–**	719
Pledged deposits	*13*	**778,427**	769,738
Time deposits	*13*	**98,270**	185,990
Cash and cash equivalents	*13*	**448,262**	307,620
Total current assets		**2,537,042**	2,193,417
CURRENT LIABILITIES			
Trade payables	*14*	**151,934**	172,692
Other payables and accruals		**797,007**	475,826
Derivative financial instruments		**2,482**	1,943
Interest-bearing bank loans and other borrowings		**761,455**	756,993
Tax payable		**115,711**	66,873
Total current liabilities		**1,828,589**	1,474,327
NET CURRENT ASSETS		**708,453**	719,090
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,095,057**	1,556,195

	2016	2015
	RMB'000	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**2,095,057**	1,556,195
NON-CURRENT LIABILITIES		
Interest-bearing bank loans and other borrowings	**451,155**	189,176
Defined benefit plan	**6,138**	12,885
Deferred tax liabilities	**48,113**	26,591
Total non-current liabilities	**505,406**	228,652
Net assets	**1,589,651**	1,327,543
EQUITY		
Equity attributable to owners of the parent		
Share capital	**108,455**	108,455
Reserves	**1,359,614**	1,204,224
	1,468,069	1,312,679
Non-controlling interests	**121,582**	14,864
Total equity	**1,589,651**	1,327,543

1. CORPORATE AND GROUP INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2009. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal offices of the Group are located at (i) 8th Floor, XinDaXin Building A, No. 168, Huangxing Middle Road, Changsha City, Hunan Province, Mainland China; (ii) Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong; (iii) Dokter van Deenweg 150, 8025 BM Zwolle, the Netherlands; and (iv) 25-27 Keysborough Avenue, Keysborough VIC 3173, Australia. The shares of the Company (the "Shares") were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 October 2009.

The Company acts as an investment holding company of the Group. The Group is principally engaged in the production, marketing and distribution of formula milk products in the People's Republic of China (the "PRC"); the dairy industry with production facilities based in the Netherlands which conduct activities ranging from research and development, milk collection, processing, production, packaging, marketing and sale of dairy products to customers in the Netherlands and other overseas countries; and in the production, marketing and distribution of nutrition products.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributable to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs standards for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs

Except for the amendments to IFRS 10, IFRS 12 and IAS 28, amendments to IFRS 11, IFRS 14, amendments to IAS 16 and IAS 41, amendments to IAS 27, and amendments included in the *Annual Improvements 2012-2014 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(b) Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and had three reportable operating segments in 2016 as follows:

(a) the Ausnutria segment comprises the manufacture and sale of own-branded cow milk-based products in Mainland China and Hong Kong;

(b) the Ausnutria Hyproca segment comprises the manufacture of dairy products in the Netherlands for sale to its worldwide customers as well as its own-branded goat milk-based products in Mainland China and other overseas countries; and

(c) the Nutrition and Others segment comprises mainly the manufacture of nutrition products in Australia for sale to its worldwide customers as well as the marketing and distribution of its own-branded functional liquid milk products in Mainland China.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs as well as unallocated head office and corporate results are excluded from such measurement.

Segment assets exclude cash and cash equivalents and other bank deposits and pledged deposits as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings as these liabilities are managed on a group basis.

Year ended 31 December 2016

	Ausnutria *RMB'000*	Ausnutria Hyproca *RMB'000*	Nutrition and Others *RMB'000*	Total *RMB'000*
Segment revenue				
Sales to external customers	**988,564**	**1,739,356**	**12,342**	**2,740,262**
Intersegment sales	**–**	**236,783**	**–**	**236,783**
	988,564	**1,976,139**	**12,342**	**2,977,045**
Reconciliation:				
Elimination of intersegment sales				**(236,783)**
Revenue from operations				**2,740,262**
Segment results	**199,369**	**147,250**	**(35,591)**	**311,028**
Reconciliation:				
Elimination of intersegment results				**(2,293)**
Interest income				**37,266**
Finance costs				**(17,849)**
Corporate and other unallocated expenses				**(30,400)**
Profit before tax				**297,752**
Segment assets	**709,576**	**1,932,040**	**271,303**	**2,912,919**
Reconciliation:				
Elimination of intersegment receivables				**(314,232)**
Corporate and other unallocated assets				**1,324,959**
Total assets				**3,923,646**
Segment liabilities	**422,541**	**948,359**	**64,717**	**1,435,617**
Reconciliation:				
Elimination of intersegment payables				**(314,232)**
Corporate and other unallocated liabilities				**1,212,610**
Total liabilities				**2,333,995**
Other segment information				
Impairment losses recognised in profit or loss	**–**	**55,828**	**–**	**55,828**
Share of profits of associates	**–**	**4,233**	**–**	**4,233**
Investments in associates	**–**	**52,103**	**–**	**52,103**
Depreciation and amortisation	**9,830**	**42,690**	**2,427**	**54,947**
Capital expenditure*	**31,231**	**199,624**	**53,282**	**284,137**

Year ended 31 December 2015

	Ausnutria *RMB'000*	Ausnutria Hyproca *RMB'000*	Nutrition and Others *RMB'000*	Total *RMB'000*
Segment revenue				
Sales to external customers	649,712	1,453,822	–	2,103,534
Intersegment sales	–	97,537	–	97,537
	649,712	1,551,359	–	2,201,071
Reconciliation:				
Elimination of intersegment sales				(97,537)
Revenue from operations				2,103,534
Segment results	67,855	(54,988)	–	12,867
Reconciliation:				
Elimination of intersegment results				(8,489)
Interest income				31,578
Finance costs				(16,045)
Corporate and other unallocated expenses				(16,120)
Profit before tax				3,791
Segment assets	544,555	1,408,551	–	1,953,106
Reconciliation:				
Elimination of intersegment receivables				(185,932)
Corporate and other unallocated assets				1,263,348
Total assets				3,030,522
Segment liabilities	290,991	651,751	–	942,742
Reconciliation:				
Elimination of intersegment payables				(185,932)
Corporate and other unallocated liabilities				946,169
Total liabilities				1,702,979
Other segment information				
Impairment losses recognised in profit or loss	417	102,651	–	103,068
Share of profits of associates	–	7,019	–	7,019
Investments in associates	–	32,312	–	32,312
Depreciation and amortisation	7,212	37,883	–	45,095
Capital expenditure*	9,867	155,495	–	165,362

* *Capital expenditure consists of additions to property, plant and equipment and intangible assets.*

Geographical information

(a) Revenue from external customers

	2016	2015
	RMB'000	*RMB'000*
The PRC	**1,819,499**	1,233,968
European Union	**563,982**	599,097
Middle East	**104,977**	73,787
United States of America	**95,774**	66,897
Australia	**25,861**	11,081
New Zealand	**5,352**	10,325
Others	**124,817**	108,379
	2,740,262	2,103,534

The revenue information is based on the locations of the customers.

(b) Non-current assets

	2016	2015
	RMB'000	*RMB'000*
The PRC	**177,430**	80,714
The Netherlands	**852,094**	657,597
Australia	**143,247**	–
New Zealand	**59,748**	–
	1,232,519	738,311

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets.

Information about a major customer

During the year, there was no revenue from a single external customer accounted for 10% or more of the Group's total revenue (2015: Nil).

5. **REVENUE, OTHER INCOME AND GAINS**

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

An analysis of revenue, other income and gains is as follows:

		2016	2015
	Note	***RMB'000***	*RMB'000*
Revenue			
Sale of goods		**2,740,262**	2,103,534
Other income and gains			
Interest income		**37,266**	31,578
Foreign exchange gains		**11,692**	3,414
Government grants	*(i)*	**3,728**	2,878
Compensation income from suppliers		**–**	2,118
Insurance claim for business interruption		**2,540**	1,094
Management fees income from an associate		**1,046**	215
Others		**6,359**	4,355
Total other income and gains		**62,631**	45,652

(i) Various government grants have been received for investments in Hunan province in the PRC in which the Company's subsidiaries operate. There were no unfulfilled conditions or contingencies relating to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2016	2015
	RMB'000	*RMB'000*
Cost of inventories sold	**1,560,279**	1,413,748
Write-down of inventories to net realisable value	**55,124**	99,820
Cost of sales	**1,615,403**	1,513,568
Depreciation	**44,429**	40,321
Amortisation of lease prepayments for land use rights	**357**	57
Amortisation of other intangible assets	**10,161**	4,717
Research and development costs	**27,038**	18,995
Minimum lease payments under operating leases	**7,132**	3,935
Loss on disposal of property, plant and equipment*	**1,741**	842
Foreign exchange differences, net	**(11,692)**	(3,414)
Write-off of trade receivables*	**704**	3,248
Loss on disposal of items of other intangible assets*	**945**	460
Auditor's remuneration	**6,575**	5,637
Advertising and promotion expenses	**312,291**	203,623
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and staff welfare	**331,916**	250,108
Equity share option expense	**11,793**	–
Pension scheme contributions**	**20,828**	22,136
	364,537	272,244

* *The write-off of trade receivables, and loss on disposal of items of property, plant and equipment and other intangible assets are included in other expenses in the consolidated statement of profit or loss and other comprehensive income.*

** *At 31 December 2016, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2015: Nil).*

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2016	2015
	RMB'000	*RMB'000*
Interest on bank loans, overdrafts and other loans	**21,969**	16,110
Interest on finance leases	**669**	952
Total interest expense on financial liabilities not at fair value through profit or loss	**22,638**	17,062
Less: Interest capitalised	**(5,272)**	(2,533)
	17,366	14,529
Other finance costs:		
Unrealised loss on an interest rate swap	**483**	1,516
	17,849	16,045

8. INCOME TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2015: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Under the PRC income tax laws, enterprises are subject to corporate income tax (the "CIT") at a rate of 25%. Under the Netherlands income tax laws, enterprises are subject to the Netherlands corporate income tax rate of 20% for the first EUR200,000 taxable profits and 25% for taxable profits exceeding EUR200,000. Under the USA tax laws, enterprises are subject to the USA corporate income tax rate of 34%. Under the Canada tax laws, enterprises are subject to the Canada corporate income tax rate of 38%. Under the Australia tax laws, enterprises are subject to the Australia corporate income tax rate of 30%. Under the New Zealand tax laws, enterprises are subject to the New Zealand corporate income tax rate of 28%.

Ausnutria Dairy (China) Co. Ltd ("Ausnutria China") was designated as a High-tech Enterprise from 2010, and was granted a preferential CIT tax rate of 15% since then. During 2016, the application for the renewal of the designation of Ausnutria China as a High-tech Enterprise, which expired in December 2016, has been approved and Ausnutria China was granted the preferential CIT tax rate of 15% for another three years ending 31 December 2019.

	2016	2015
	RMB'000	*RMB'000*
Current charge for the year – Mainland China		
Charge for the year	**115,477**	46,204
Underprovision in prior years	**107**	–
Current charge for the year – The Netherlands		
Charge for the year	**4,110**	7,768
Under/(over)provision in prior years	**173**	(427)
Deferred income tax	**(56,111)**	(52,865)
Total tax charge for the year	**63,756**	680

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,247,732,530 (2015: 1,033,178,472) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the share option issued. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

Earnings

	2016	2015
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	**212,672**	50,645

Shares

	2016	2015
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,247,732,530**	1,033,178,472
Effect of dilution – weighted average number of ordinary shares:		
Share options	**2,441,325**	–
	1,250,173,855	1,033,178,472

10. GOODWILL

	Total
	RMB'000
At 1 January 2015:	
Cost	**75,713**
Accumulated impairment	**–**
Net carrying amount	**75,713**
Cost at 1 January 2015, net of accumulated impairment	**75,713**
Exchange realignment	**(3,660)**
At 31 December 2015	**72,053**
At 31 December 2015:	
Cost	**72,053**
Accumulated impairment	**–**
Net carrying amount	**72,053**
Cost at 1 January 2016, net of accumulated impairment	**72,053**
Acquisition of nutrition business *(note 15)*	**61,798**
Exchange realignment	**1,218**
Cost and net carrying amount at 31 December 2016	**135,069**
At 31 December 2016:	
Cost	**135,069**
Accumulated impairment	**–**
Net carrying amount	**135,069**

11. INVENTORIES

	2016	2015
	RMB'000	*RMB'000*
Raw materials	**239,805**	213,031
Finished goods	**555,059**	361,850
Others	**5,395**	4,976
Total	**800,259**	579,857

At 31 December 2016, certain of the Group's inventories that were attributed to the Group's operations in the Netherlands (the "Ausnutria Hyproca Group") with a net carrying amount of EUR63,841,000 (equivalent to approximately RMB466,473,000) (2015: EUR55,063,000, equivalent to approximately RMB390,683,000) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group.

12. TRADE AND BILLS RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**161,943**	145,552
Bills receivable	**55,047**	39,844
Total	**216,990**	185,396

The Group normally allows a credit period from 1 to 12 months (2015: from 1 to 12 months) to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Included in the Group' trade receivables was amounts due from associates of EUR624,000 (equivalent to approximately RMB4,559,000) (2015: EUR271,000, equivalent to approximately RMB1,923,000) repayable on similar credit terms to those offered to the major customers of the Group.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**151,471**	133,170
3 to 6 months	**2,709**	6,807
6 months to 1 year	**5,510**	3,112
Over 1 year	**2,253**	2,463
Total	**161,943**	145,552

There was no provision for impairment as at 31 December 2016 (2015: Nil). The carrying amounts of the trade and bills receivables approximate their fair values.

13. CASH AND CASH EQUIVALENTS AND OTHER BANK DEPOSITS AND PLEDGED DEPOSITS

	2016	2015
	RMB'000	*RMB'000*
Cash and bank balances	**448,262**	307,620
Time deposits	**876,697**	955,728
	1,324,959	1,263,348
Less: Pledged deposits	**(778,427)**	(769,738)
Non-pledged time deposits with maturity of between 3 months to 12 months	**(98,270)**	(185,990)
Cash and cash equivalents	**448,262**	307,620

14. TRADE PAYABLES

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

	2016	2015
	RMB'000	*RMB'000*
Within 12 months	**151,001**	170,769
Over 12 months	**933**	1,923
	151,934	172,692

Included in the trade payables was an amount due to associates of EUR1,603,000 (equivalent to approximately RMB11,712,000) (2015: EUR438,000, equivalent to approximately RMB3,108,000) are repayable within 45 days.

Trade payables are interest-free and are normally settled within 12 months.

15. BUSINESS COMBINATION

Pursuant to an agreement entered into between the Group and Hunan XinDaXin Company Limited ("Hunan XinDaXin") on 11 July 2016, the Group agreed to purchase and Hunan XinDaXin agreed to sell the entire equity interests of Hunan Mornring Foodstuff Co., Ltd. ("Hunan Mornring"), which owned the land and building that is adjacent to the Group's existing production facility in Changsha city, the PRC, at a cash consideration of RMB28.5 million. The consideration was determined with reference to the appraised value reported under a valuation report produced by an independent qualified appraisal company in Hong Kong. The acquisition of Hunan Mornring was completed on 11 July 2016.

Pursuant to the agreements entered into between the Group and two independent parties (the "NCP Vendors") on 24 August 2016, the Company agreed to purchase and the NCP Vendors agreed to sell the business, namely the development, manufacturing, packaging and distribution of complementary medicine, nutritional and health care products (the "Nutrition Business"), together with the land and buildings (the "NCP Properties") that was used in conducting the Nutrition Business in Australia. The considerations for the purchase of the Nutrition Business and the NCP Properties amounted to a total of AUD31.6 million (equivalent to approximately RMB161.2 million). The acquisition of Nutrition Business and the NCP Properties were completed on 5 October 2016.

The aggregated fair values of the identifiable assets and liabilities of the Nutrition Business, the NCP Properties and Hunan Mornring as at the respective dates of acquisitions were as follows:

	Note	**Fair value recognised on acquisition** ***RMB'000***
Property, plant and equipment		**31,718**
Intangible assets		**76,880**
Prepaid land lease payments		**27,985**
Deferred tax assets		**702**
Inventories		**15,185**
Other receivables		**823**
Trade and other payables		**(2,341)**
Deferred tax liabilities		**(23,064)**
Total identifiable net assets at fair value		**127,888**
Goodwill on acquisition	*10*	**61,798**
Satisfied by cash		**189,686**

The Group incurred transaction costs of RMB8,156,000 for the acquisitions. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss.

An analysis of the cash flows in respect of the acquisition of the Nutrition Business, the NCP Properties and Hunan Mornring are as follows:

	RMB'000
Cash consideration	**(189,686)**
Netting-off with contribution from non-controlling shareholder of NCP	**38,193**
Include in other payables	**8,414**
Net outflow of cash and cash equivalents included in cash flows from investing activities	**(143,079)**
Transaction costs of the acquisitions included in cash flows from operating activities	**(8,156)**
	(151,235)

16. DIVIDENDS

	2016	2015
	RMB'000	*RMB'000*
Proposed final – HK$0.05 (2015: HK$0.03) per ordinary share	**55,805**	33,585

BUSINESS REVIEW

During the Year 2016, the dairy industry, in particular, in the PRC which is the Group's principal market, continued to be challenging. While it is anticipated that the PRC market will continue to grow steadily due to the relaxation of the one-child policy and the rising living standards in the PRC, the continuous launch of new policies by the PRC government is bringing uncertainties to the development of the dairy industry.

However, given the infrastructure which the Company has established in the past, including the solid wholly-owned production base in the Netherlands, the anticipated completion of the construction of new factories in Heerenveen, the Netherlands (the "Green Factory") and New Zealand in 2017 and the extensive distribution network in the PRC and overseas, the Group will benefit from the industry reforms in the medium- to long-run.

Infant Formula Business

(A) Own-branded "Cow milk-based"

The Group commenced its business of the marketing and distribution of cow milk-based infant formula in the PRC with its milk source principally based in Australia and under the brand names of *Allnutria, A-Choice* and *Best-Choice* in 2003. In order to secure the long-term growth of the Group, the Group acquired 51% and 49% equity interests in Ausnutria Hyproca B.V. ("Ausnutria Hyproca"), which together with its subsidiaries, owned the dairy-related production facilities in the Netherlands, in 2011 and 2015, respectively. In 2013 and 2014, in order to further integrate the business of the Ausnutria Hyproca Group and support the future own-branded infant formula development of the Group, the Group made significant capital investment aiming to increase and improve the productivity and the quality standards of the Ausnutria Hyproca Group. The production facilities upgrading plan of the Ausnutria Hyproca Group was completed at the end of 2015. The supply of own-branded cow milk-based infant formula from the Ausnutria Hyproca Group to the PRC increased by 142.9% from RMB97.5 million for the Year 2015 to RMB236.8 million for the Year 2016.

Besides, in order to meet the continuous growth in demand for infant formula in the PRC and cater for the different needs of the wide range of consumers in the PRC, apart from the continuous development of the Company's original brand *Allnutria*, the Group has also launched a number of other brands, including *Puredo*, *Hyproca 1897*, *Neolac*, *Mygood* and *Eurlate* in recent years. For marketing and strategic reasons, these brands are managed and operated by different business units of the Group. Further, in order to ensure stable and sufficient infant formula supply and mitigate the concentration risk of milk source, the Group diversified its infant formula supply to a number of countries in recent years. For the Year 2016, the infant formula sold by the Group in the PRC are supplied by different manufacturers which are located in New Zealand, Australia, France as well as the Group's own factories in the Netherlands. The Board believes that the above strategies will facilitate the long-term continuous growth of the Group.

For the Year 2016, sales of own-branded cow milk-based infant formula increased by 53.0% to RMB1,018.9 million. The continuous growth was mainly driven by (i) the continuous increase in demand for infant formula in the PRC; (ii) the increasing recognition of the high quality standards of infant formula manufactured by the Group; (iii) the clear brand positioning and the adjusted business strategies implemented by the Group; and (iv) the high industry entry barrier as a result of the raising industry regulatory standards implemented by the PRC government.

(B) Own-branded "Goat milk-based"

The Group introduced *Kabrita* in the PRC in 2011 and thereafter in Russia and the Commonwealth of Independent States (the "CIS"), Europe, the Middle East, the United States, Canada, Brazil and South Africa.

During the Year 2016, sales of *Kabrita* continued to be promising and has become one of the Group's key profit contributors. For the Year 2016, sales of *Kabrita* in the PRC amounted to RMB663.5 million, representing an increase of RMB202.5 million, or 43.9%, when compared with the Year 2015. According to the data obtained from the PRC customs, the market share of *Kabrita* has been ranked as the number one imported goat milk-based infant formula in the PRC for three consecutive years since 2014. The development and performance on the sale of *Kabrita* overseas also improved significantly for the Year 2016 and amounted to RMB135.4 million, representing an increase of RMB56.5 million, or 71.6%, when compared with the Year 2015.

All *Kabrita* products are manufactured by the Ausnutria Hyproca Group in the Netherlands since they were launched in 2011. The continuous success in *Kabrita* is mainly attributable to (i) the effective marketing strategy launched by the Group; (ii) the unique formula; and (iii) the unique position and business model of the Ausnutria Hyproca Group (the upstream) which facilitates the development and manufacture of *Kabrita*.

As part of the long-term strategy of the Group to launch *Kabrita* worldwide, in 2014, the Group approved clinical trials to apply for approval by the US Food and Drug Administration (the "FDA") for the sale of *Kabrita* in the United States. The clinical trials and the application of the import approval to the United States of *Kabrita* has been carried out as scheduled. In particular, the Group received the Generally Recognised as Safe "GRAS" status (GRN No. 644) for the non-fat dry goat milk and goat whey protein concentrate for use in the goat milk-based infant formula, i.e. confirming that these ingredients are recognised as safe and permitted to be used as the source of protein in infant formula in the United States, during the Year 2016.

The Group will continue to launch *Kabrita* in other major countries and aim to become a global market leader in goat milk-based infant nutrition products. This ambition will be leveraged by the studies and clinical trial conducted by (i) the medical school of Peking University; (ii) the clinical studies in Europe; and (iii) the in-house research and development team in the Netherlands and North America during the course of applying for FDA approval.

(C) Private Label business

Other than the development of its own-branded business, the Ausnutria Hyrpoca Group also produces infant formula for other worldwide customers on an OEM basis (the "Private Label"). In view that the facilities upgrading plans were completed in 2015, the Ausnutria Hyproca Group has allocated more of its production capacity in the Year 2016 to serve the Private Label customers. For the Year 2016, sales of the Private Label business increased by 71.9% to RMB472.1 million, and represented 17.2% of the total revenue of the Group.

Nutrition business

The Group commenced the business in the manufacture and distribution of nutrition products through the acquisition of the Nutrition Business and the marketing and distribution of import functional milk under the Group's own brand name "*Globlait*" in the PRC since the fourth quarter of the Year 2016. As the Nutrition Business commenced in the fourth quarter of the Year 2016 and there were certain one-off expenses incurred, including but not limited to, the legal and professional fees and stamp duty paid, in relation to the acquisition of the Nutrition Business and marketing related costs, including but not limited to, market researches and brand positioning related costs incurred during the start-up stage, sale and operating performance derived from the Nutrition Business amounted to RMB12.3 million and loss of RMB35.6 million, respectively, for the Year 2016.

The Group has already commenced the launch of its nutrition products under the brand name "*Nutrition Care*" (which was principally sold in Australia and New Zealand prior to the acquisition of the Nutrition Business) in the PRC, where it is considered to be the future principal market of these products, since the end of 2016.

In anticipation of the continuous increase in the demand for the products produced by the Group, in particular, the infant formula, and to meet the long-term strategies of the Group to become a nutrition service provider, the Group has undertaken the following steps during the Year 2016.

Acquisition of the entire equity interests in Hunan Mornring Foodstuff Co., Ltd.

On 11 July 2016, Ausnutria China, a wholly-owned subsidiary of the Company, entered into a share transfer agreement with Hunan XinDaXin 湖南新大新股份有限公司, a connected person as defined under the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange. Pursuant to the agreement, Ausnutria China agreed to acquire and Hunan XinDaXin agreed to sell the entire equity interests in Hunan Mornring 湖南沐林現代食品有限公司 (the "Mornring Acquisition"), the principal activity of which is the holding of a plot of land and building (the "Changsha Properties") that is adjacent to the Group's existing production facility in Changsha city, the PRC, at a consideration of RMB28.5 million.

The purpose of the Mornring Acquisition is to facilitate the future expansion of the Group's production and storage facilities in Changsha city, the PRC. The consideration was determined after arm's length negotiation between Ausnutria China and Hunan XinDaXin based on the appraised value of the Changsha Properties reported under a valuation report produced by an independent qualified appraisal company in Hong Kong.

The Group is finalising a detail business plan for the future development of the Changsha Properties. Further details regarding the Mornring Acquisition are set out in the announcement of the Company dated 11 July 2016. The Mornring Acquisition was completed on 11 July 2016.

Acquisition of 100% interest by the Group and subsequent subscription of 25% interests by the NCP Vendors in the Nutrition Business in Australia

On 24 August 2016, the Group, through Nutrition Care Pharmaceuticals Pty Ltd (formerly known as Nutrition Care Holding Pty Ltd) ("NCP"), entered into agreements with the NCP Vendors for the purchase of the Nutrition Business, together with the NCP Properties, that were used in conducting the Nutrition Business in Australia. Pursuant to the respective agreements (the "Nutrition Business Agreements"), the consideration for the purchase of the Nutrition Business and the NCP Properties amounted to AUD26.4 million (equivalent to approximately RMB134.7 million) and AUD5.2 million (equivalent to approximately RMB26.5 million), respectively. Upon completion of the Nutrition Business Agreements, the Group will own the Nutrition Business (which are manufactured under the Therapeutic Goods Administration (the "TGA") licensed and meet the Goods Manufacturing Practice requirements), the assets purchased thereunder and the NCP Properties would immediately be able to continue and develop the Nutrition Business that was previously carried out by the NCP Vendors.

The Group has been principally engaged in the dairy business where it has established a strong foundation over the years. In view of the increasing health awareness of the general public, particularly in the PRC, on the one hand, the Group will continue to expand its production capability and distribution network in the dairy industry sector, on the other hand, the Company has been actively seeking investment opportunities to extend its existing product range and to utilise its strong distribution and customer network and innovative marketing models to meet the demand of the customers in related segment.

The Group considers that, given the increasing health awareness globally and particularly in the PRC where the living standards has been improving, the nutrition business segment has a potential of high future growth. The Group believes that the acquisition of the Nutrition Business, which includes a factory that is TGA licensed, is highly complementary to its existing product portfolio and can create synergies with the existing businesses of the Group and is in line with the long-term strategy of the Group.

Upon completion of the Nutrition Business Agreements on 5 October 2016, the NCP Vendors continued to be beneficially interested in 25.0% of the Nutrition Business and has through a consultant company been acting as the consultant for the Nutrition Business. Besides, most of the employees that were previously involved in the Nutrition Business have already transferred to the Group upon completion of the Nutrition Business Agreements. The Company believes such arrangement will facilitate a smooth transition as well as to expedite the development of the Group into the Nutrition Business sector by leveraging on the expertise of the consultant and the management team and the strong distribution and customer network of the Group.

Further details regarding the acquisition of the Nutrition Business are set out in the announcement of the Company dated 24 August 2016.

Formation of a joint venture with Westland Co-operative Dairy Company Limited in New Zealand

On 29 September 2016, the Group and Westland entered into an agreement (the "NZ Agreement") for the purpose of establishing a manufacturing plant in New Zealand for the production and sale of dairy based powder products, including infant formula milk powder, follow-up formulation and other nutrition products for kids and adults. According to the NZ Agreement, the Group injected NZD4.5 million (equivalent to approximately RMB21.8 million) in cash and Westland transferred the ownership of the a plot of land (the "NZ Land") with an appraised value of NZD3.0 million (equivalent to approximately RMB14.6 million) reported under a valuation report as produced by an independent qualified appraisal company to the newly formed joint venture company established in New Zealand (the "NZ Joint Venture"). The NZ Land, which is adjacent to an existing manufacturing plant of Westland and located at Rolleston in New Zealand has a site area of approximately 2.5 hectares. The NZ Joint Venture is owned as to 60% and 40% by the Group and Westland, respectively, and accordingly is accounted for as a subsidiary of the Group.

Westland, a co-operative dairy company established in New Zealand, is the second largest dairy co-operative in New Zealand and has become one of the major suppliers of the Group since 2013. The principal business activities of Westland include the manufacture and sale of dairy products (including yoghurt) derived from milk sourced from the co-operative, who are also the shareholders of Westland from its production facilities in New Zealand.

Further, to support the operation of the NZ Joint Venture in the start-up stage, the NZ Joint Venture also entered into a shareholder loan agreement, pursuant to which the Group, as the lender, granted a facility of NZD32.0 million (equivalent to approximately RMB155.2 million) to the NZ Joint Venture, as the borrower, for the start-up of the business in New Zealand, including among other things, the construction of a manufacturing plant and the purchase of machinery and equipment.

The purpose for the investment in the NZ Joint Venture is to further develop and diversify the milk source and to enhance the production capabilities of infant formula of the Group so as to cater for the anticipated continuous growth in sale of infant formula of the Group in the PRC as well as overseas countries. In addition, the Group can also leverage on Westland's expertise and resources through the establishment of the NZ Joint Venture. Pursuant to the agreements respectively entered into with the NZ Joint Venture by Westland and Ausnutria China, Westland shall supply its dairy based nutritional powder products with milk source in New Zealand as the base for the NZ Joint Venture to produce the infant formula and adult nutritional products. The products will then be sold to the Group under the Group's own brand name for sale to customers in the PRC as well as to other customers on an OEM basis.

The total investment costs in the NZ Joint Venture by the Group amounted to a total of NZD36.5 million (equivalent to approximately RMB177.0 million). Further details regarding the investment in New Zealand are set out in the announcement of the Company dated 29 September 2016.

Industry overview

Currently, there are over 2,500 brands of infant formula in the PRC manufactured by about 108 and 77 factories in the PRC and overseas, respectively, which are registered with Certification and Accreditation Administration of the PRC. As a result of the increasing public health awareness and the demand for higher food quality and safety standards worldwide, in particular for infant nutrition products, new regulations and policies have been proposed from time to time in order to maintain the related industry's healthy growth and improve the quality and safety standards.

Following the implementation of a number of new policies in the PRC in recent years which impose stringent quality controls of infant formula in the PRC, on 6 June 2016, the China Food and Drug Administration further promulgated the Administrative Measures for the Registration of Formulas for Infant Formula Powder (《嬰幼兒配方乳粉產品配方註冊管理辦法》) (the "Measures"). The purposes of implementing the Measures are to strengthen the supervision over the research and development and the formulation of the infant milk powder by enterprises and improve their research and development, production and inspection capabilities with an aim to further enhance the quality and safety standards of infant formula in the PRC. The Measures are considered to be one of the most stringent regulations on infant milk powder in the world and will come into effect on 1 January 2018.

Firstly, the Measures specify that domestic and imported infant formula sold in the PRC will be subject to the registration system which is designed with reference to the more stringent quality control system in the pharmaceutical sector in the PRC. Registration for infant formula shall be approved only if the manufacturer possesses the required research and development, production and inspection capabilities, and can meet the relevant regulatory requirements for the production of infant food formula according to the relevant laws and regulations and the national food safety requirements in the PRC.

Secondly, the number of formula to be manufactured by each enterprise is limited in order to facilitate consumers' evaluation of different formulae in the market. The Measures stipulate that each enterprise shall, in principle, own not more than three brands.

Thirdly, labeling and advertising of infant formula will be regulated to avoid delivering misleading information to the consumers. The Measures require industry participants to submit supporting materials for the functions set forth in the labels of their products during their registration process.

Fourthly, the regulatory requirements and the legal liability of market participants will be clearly stated under the Measures.

With the implementation of the Measures, it is believed that the infant formula market in the PRC will grow in a more healthy and positive direction in the long run. Given the solid foundation that the Group has established over the years, the stringent and high quality controls and research and development capabilities of the Group, the Board believes that the Group will benefit from the implementation of the Measures.

OUTLOOK

According to the National Bureau of Statistics of the PRC, the number of newborn in the PRC increased by 7.9% from 16.6 million for the Year 2015 to 17.9 million for the Year 2016. The Company believes the increase was the result of the relaxation of the one-child policy as well as the increasing household income in the PRC which enables more families to consider a second child. The Company believes that the number of newborn, and hence the demand for infant formula, will continue to increase in the future.

In order to support the Group's continuous expansion of the market position in infant formula products sector for cow own-brands in the PRC and the goat own-brands as well as the Private Label business worldwide and to realise the long-term business strategies of the Group of serving consumers with a full range of nutrition products, other than the continuous adjustments on or launch of effective marketing strategies to cope with the rapid change in market conditions, the Group will focus on the followings:

Complete the construction of the new manufacturing plants in the Netherlands and New Zealand

In order to support the anticipated continuous growth in the demand for infant formula products of the Group, in 2014 and 2016, the Group has approved the construction of new factories in the Netherlands and New Zealand. The purpose of investing in new factories is to improve the blending and packaging capacity as well as to diversify the milk source of the Group. According to the current status of the two projects, the construction of both new factories will be completed in 2017.

As at 31 December 2016, the Group has already invested EUR71.8 million (equivalent to approximately RMB527.1 million) (2015: EUR46.4 million) (equivalent to approximately RMB341.7 million) and NZD4.9 million (equivalent to approximately RMB23.5 million) (2015: Nil) in the Netherlands and New Zealand factories, respectively. Upon completion of the construction of the two new factories, the blending and packaging capacity of the Group in the Netherlands will increase progressively from approximately 30,000 tons to 90,000 tons by 2019 and there will be an additional capacity in New Zealand for approximately 15,000 tons.

The Board believes that the Group's productivity and quality standards and hence the turnover and profitability of the Group will be greatly enhanced when the operations of the new factories commence in 2017.

Extension into the Nutrition Business sector

The Group realises the business potentials and the importance to continue the supply of quality nutrition products and serve the infants in their future life. In order to meet the needs of the consumers, the Group has commenced the business in the marketing and distribution of imported functional liquid milk in the PRC and has, through the acquisition of the Nutrition Business, commenced the launch of the nutrition products in the PRC that are produced by NCP. The Group will continue to strengthen its marketing and business strategies in the nutrition sector by leveraging on the resources of NCP, the network of the Group and the strong demand for quality nutrition products worldwide, particularly in the PRC.

Save for the above, the Group has been exploring investment opportunities that help diversifying the Group's milk supply and also the Group's product mix. In particular, the Company is in negotiation with independent parties for the possible co-operations in the related business (the "Possible Co-operations").

The Board wishes to emphasise that the Possible Co-operations may or may not proceed. In the event that any definitive agreement is entered into, the Possible Co-operations may or may not constitute a notifiable transaction for the Company under Listing Rules. The Company will make further announcement as and when appropriate.

The Group will continue to make use of its internal resources and global network to explore potential investment opportunities in upstream dairy and/or nutrition related assets and operations to broaden the Group's milk powder supply sources and related dairy and/or nutrition related products to meet the growing global demand, particularly in the PRC, for quality health products. Meanwhile, the Group will continue to focus on the development of its core infant formula business.

FINANCIAL REVIEW

Analysis on Consolidated Statement of Profit or Loss and Other Comprehensive Income

Revenue

	Notes	**2016** **RMB'M**	2015 RMB'M	Change %
Own-branded infant formula:				
Cow milk-based in the PRC	*(i)*	**1,018.9**	665.9	53.0
Goat milk-based in the PRC	*(i)*	**663.5**	461.0	43.9
Goat milk-based (elsewhere other than in the PRC)	*(i)*	**135.4**	78.9	71.6
		1,817.8	1,205.8	50.8
Private labels	*(ii)*	**472.1**	274.6	71.9
Milk powder	*(iii)*	**223.5**	366.6	(39.0)
Butter	*(iv)*	**108.5**	108.2	0.3
Nutrition products*	*(v)*	**12.3**	–	–
Others	*(vi)*	**106.1**	148.3	(28.5)
Total		**2,740.3**	2,103.5	30.3

* *New businesses commenced during the Year 2016.*

Notes:

(i) Represented the sale of own-branded cow milk-based infant formula in the PRC and own-branded goat milk-based infant formula *Kabrita* in the PRC, Russia and the CIS, Europe, United States, Canada, the Middle East countries, Brazil and South Africa.

(ii) Represented the sale of milk powder (including infant formula) under the customers' own brands in the Netherlands and other overseas countries, such as the PRC, other European and the Middle East countries.

(iii) Represented the sale of semi-finished and finished cow and goat milk powder to the worldwide customers.

(iv) Represented the sale of butter which is a by-product produced during the milk treatment process.

(v) Mainly represented the sale of nutrition products in the PRC, Australia and New Zealand that were produced by NCP and the sale of functional milk in the PRC.

(vi) Mainly represented the processing of condensed milk and the trading of fresh milk, etc.

For the Year 2016, the Group recorded revenue of RMB2,740.3 million, representing an increase of RMB636.8 million, or 30.3%, from RMB2,103.5 million for the Year 2015. Despite the competition of the infant formula market in the PRC continues to be intense during the Year 2016, revenue of the Group continues to increase and this was mainly attributable to (i) the continuous increase in sale of own-branded business which has been driven by the clear brand positioning and the adjusted marketing strategies of the Group; and (ii) the increase in sale of the Private Label business following the completion of the Group's production facilities upgrading plan in the Netherlands in 2015.

As a higher portion of the Group's production capacity in the Netherlands has been allocated to own-branded and the Private Label businesses, the sales of other businesses, which their revenue were derived from the operations in the Netherlands and with comparatively lower margin contributions, decreased for the Year 2016.

Gross profit and gross profit margin

	Gross profit		**Gross profit margin**	
	2016	2015	**2016**	2015
	RMB'M	*RMB'M*	***%***	*%*
Own-branded infant formula:				
Cow milk-based	**559.2**	329.4	**54.9**	49.5
Goat milk-based	**437.2**	291.7	**54.7**	54.0
Own-branded infant formula	**996.4**	621.1	**54.8**	51.5
Others	**183.6**	68.7	**19.9**	7.7
	1,180.0	689.8	**43.1**	32.8
Less: provision for inventories	**(55.1)**	(99.8)	**(2.0)**	(4.8)
Total	**1,124.9**	590.0	**41.1**	28.0

The Group's gross profit for the Year 2016 was RMB1,124.9 million, representing an increase of RMB534.9 million, or 90.7%, when compared with the Year 2015. The increase in the gross profit margin of the Group from 28.0% for the Year 2015 to 41.1% for the Year 2016 was mainly attributable to the proportionate increase in the sales of the higher profit margin own-branded business as compared with the other business sectors.

Overall contribution to revenue by own-branded business increased to 66.3% for the Year 2016 (Year 2015: 57.3%).

Other income and gains

An analysis of other income and gains is as follows:

	Notes	2016 RMB'M	2015 RMB'M
Interest income on bank and other deposits	*(i)*	**37.3**	31.6
Foreign exchange gain	*(ii)*	**11.7**	3.4
Government grants	*(iii)*	**3.7**	2.9
Compensation income/insurance claim for business interruption		**2.5**	3.2
Others		**7.4**	4.6
		62.6	45.7

(i) Balance mainly represented the interest income derived from the bank deposits that were placed with banks in the PRC. The increase in interest income was a result of the continuous improvements in the average bank balances.

(ii) Balance mainly represented exchange gain derived from the translation of the bank loans of the Group that were denominated in EUR as at 31 December 2016.

(iii) Balance mainly represented incentive income received from the government of the Hunan province for the contribution made by Ausnutria China in the Hunan province during the Year 2016.

Selling and distribution expenses

Selling and distribution expenses, which mainly comprised advertising and promotion expense, rebates to distributors and customers, exhibition and trade show expenses, salaries and travelling costs of the sales and marketing staff and delivery costs, remained fairly stable and represented 23.6% (Year 2015: 23.7%) of the revenue for the Year 2016.

Administrative expenses

Administrative expenses mainly comprised staff costs, travelling expenses, auditors' remuneration, professional fees, depreciation and research and development costs. The increase in the administrative expenses was primarily attributed to the continuous increase in the scale of operations of the Group. Besides, the issue of a total of approximately 46.8 million (Year 2015: Nil) share options of the Company during the year which resulted in an increase in non-cash expense of RMB11.8 million (Year 2015: Nil) also contributed for the increase in administrative expenses during the Year 2016.

The administrative expenses accounted for 7.9% (Year 2015: 5.5%) of the revenue of the Group for the Year 2016.

Other expenses

Other expenses mainly comprised the legal and professional fees incurred for the various acquisitions completed during the year of a total of RMB8.2 million (Year 2015: RMB2.5 million); the write-off of trade receivables of RMB0.7 million (Year 2015: RMB3.2 million); and loss on disposal of property, plant and equipment and other intangible assets of a total of RMB2.7 million (Year 2015: RMB1.3 million).

Finance costs

The finance costs of the Group for the Year 2016 amounted to RMB17.8 million (Year 2015: RMB16.0 million), representing the interest on bank loans and other borrowings raised principally for the financing of the working capital and the capital expenditure plans of the Group's operations in the Netherlands.

The increase in finance costs was mainly attributable to the drawdown of additional bank loans for the financing of the construction of the Green Factory in the Netherlands.

Share of profit of an associate

Balance mainly represented the share of profits of Farmel Holding B.V. (the "Farmel Group"), which it is principally engaged in the collection and trading of milk in Europe, for the Year 2016. The purpose for the investment in the Farmel Group is to secure the long-term milk supply for the Group's operations in the Netherlands.

Income tax expenses

The profits generated by the Group for the Year 2016 were mainly derived from operations in the PRC and the Netherlands. Under the PRC income tax laws, enterprises are subject to the CIT at a rate of 25%. Ausnutria China was designated as a High-tech Enterprise and was granted a preferential CIT rate of 15% for the Year 2016. All other subsidiaries established in the PRC are subject to the standard CIT rate of 25%. The standard CIT rate in the Netherlands was applied at 20% for the first EUR200,000 taxable profits and 25% for the taxable profits exceeding EUR200,000.

An analysis of the effective income tax rate by jurisdiction is as follows:

	Mainland China		**The Netherlands**		**Others**		**The Group**	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Profit/(loss) before tax *(RMB'M)*	**329.2**	170.4	**31.8**	(116.3)	**(63.2)**	(50.3)	**297.8**	3.8
Income tax expense/(credit) *(RMB'M)*	**66.2**	37.8	**5.0**	(27.5)	**(7.4)**	(9.6)	**63.8**	0.7
Effective income tax rate *(%)*	**20.1**	22.2	**15.8**	23.6	**11.7**	19.1	**21.4**	17.9

The increase in the Group's effective tax rate from 17.9% for the Year 2015 to 21.4% for the Year 2016 was mainly due to the turnaround in the operating performance in the Netherlands.

Profit attributable to equity holders of the Company

The Group's profit attributable to equity owners of the Company for the Year 2016 amounted to RMB212.7 million, representing an increase of RMB162.1 million, or 320.4% when compared with the Year 2015.

The improvement in the Group's financial performance which results from the continuous growth in the sales of own-branded cow and goat milk-based infant formula was driven by the clear brand positioning and the adjusted business strategy and the increasing market demands for the products of the Group.

Analysis on Consolidated Statement of Financial Position

As at 31 December 2016, the total assets and net asset value of the Group amounted to RMB3,923.6 million (31 December 2015: RMB3,030.5 million) and RMB1,589.7 million (31 December 2015: RMB1,327.5 million), respectively.

The increase in total assets of the Group as at 31 December 2016 was mainly contributed by:

(i) the acquisition of the Nutrition Business and the NCP Properties which resulted to an increase in property, plant and equipment, goodwill and other intangible assets of RMB31.7 million, RMB61.8 million and RMB76.9 million, respectively;

(ii) the increase in prepaid land lease payment as a result of the Mornring Acquisition of RMB28.0 million;

(iii) the increase in construction in progress as a result of the investment in the Green Factory made during the year of RMB185.4 million (Year 2015: RMB134.1 million);

(iv) the increase in land and buildings by NZD3.0 million (equivalent to approximately RMB14.6 million) as a result of the formation of the NZ Joint Venture;

(v) the increase in inventories of RMB248.6 million (Year 2015: RMB177.9 million); and

(vi) the net increase in cash and cash equivalent, time deposits and pledged deposits of a total of RMB61.6 million (Year 2015: RMB303.1 million).

The increase in total assets of the Group as at 31 December 2016 was mainly financed by the drawdown of new bank loans, internal working capital and the cash flows generated from operating activities of the Group of RMB294.4 million (Year 2015: outflows of RMB45.4 million) during the year.

The increase in net assets of the Group as at 31 December 2016 was mainly contributed by the net profit generated for the year of RMB234.0 million (Year 2015: RMB3.1 million).

Working Capital Cycle

As at 31 December 2016, the current assets to current liabilities ratio of the Group was 1.4 times (2015: 1.5 times) which remained stable when compared with last year.

An analysis of key working capital cycle is as follows:

	2016 Number of days	2015 Number of days	Change Number of days
Debtors' turnover days	**29**	32	(3)
Inventory turnover days	**180**	140	40
Creditors' turnover days	**34**	42	(8)

The increase in inventory turnover days of the Group for the Year 2016 was mainly attributed to (i) the Group's strategies to increase the focus on the development of own-branded business which requires longer lead time for both the production and sale of the products to end customers; and (ii) the implementation of a more stringent quality controls procedures for the Year 2016.

The turnover days of the Group's trade and bills receivables and trade payables for the Year 2016 remained fairly stable when compared with last year.

Analysis on Consolidated Statement of Cash Flows

An extract of the cash flows information of the Group is as follows:

	2016 ***RMB'M***	2015 *RMB'M*
Net cash flows from/(used in) operating activities	**294.4**	(45.5)
Net cash flows used in investing activities	**(362.8)**	(435.6)
Net cash flows from financing activities	**256.4**	515.8
Net increase in cash and cash equivalents	**188.0**	34.7

Net cash flows from/(used in) operating activities

The net cash flows from operating activities of the Group for the Year 2016 amounted to RMB294.4 million (Year 2015: outflows of RMB45.5 million). The improvement in cash flows from operating activities of the Group for the Year 2016 was mainly contributed by the increase in profit before tax generated for the Year 2016 of RMB297.8 million (Year 2015: RMB3.8 million).

Net cash flows used in investing activities

The net cash flows used in investing activities of the Group for the Year 2016 of RMB362.8 million (Year 2015: RMB435.6 million) mainly represented (i) the investments in the Nutrition Business and the Mornring Acquisition of a total of RMB143.1 million (Year 2015: Nil); (ii) the purchase of property, plant and equipment of RMB248.1 million (Year 2015: RMB157.2 million) mainly for the construction of the Green Factory; and (iii) the decrease in time deposits of RMB79.0 million (Year 2015: increase of RMB273.7 million) as part of the Group's treasury arrangement.

Net cash flows from financing activities

The net cash flows from financing activities of the Group for the Year 2016 of RMB256.4 million (Year 2015: RMB515.8 million) was primarily contributed by the net drawdown of the additional bank loans and other borrowings of a total balance of RMB258.7 million (Year 2015: RMB392.0 million) for the financing of the investing activities mentioned above.

Last year's net cash flows from financing activities also included the net cash inflows from the receipt of the net proceeds from the Open Offer (as defined below) of approximately RMB206.4 million and the cash outflow for the settlement of the cash consideration for the acquisition of the residual 49.0% equity interest in Ausnutria Hyproca of approximately RMB82.3 million.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

Save for the acquisition of the Nutrition Business, the Mornring Acquisition and formation of the NZ Joint Venture as detailed above in this announcement, there were no material investments, acquisitions or disposals of subsidiaries and associated companies during the Year 2016.

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGED OF ASSETS

The Group adopts conservative financial management policies. A summary of liquidity and financial resources is set out below:

	As at 31 December	
	2016	2015
	RMB'M	*RMB'M*
Interest-bearing bank loans and borrowings	**(1,212.6)**	(946.2)
Less: Pledged deposits	**778.4**	769.7
Time deposits	**98.3**	186.0
Cash and cash equivalents	**448.2**	307.6
	112.3	317.1
Total assets	**3,923.6**	3,030.5
Shareholders' equity	**1,468.1**	1,312.7
Gearing ratio (1)	**N/A**	N/A
Solvency ratio (2)	**37.4**	43.3

Notes:

(1) Calculated as a percentage of net bank loans and other borrowings over total assets.

(2) Calculated as a percentage of shareholders' equity over total assets.

As at 31 December 2016, the Group had pledged the land and buildings, plant and machineries, inventories and trade receivables that were attributable to the operations in the Netherlands with a total carrying value of approximately EUR146.8 million, equivalent to approximately RMB1,072.4 million (2015: approximately EUR111.4 million, equivalent to approximately RMB790.7 million) and the time deposits that were placed in the PRC of RMB778.4 million (2015: RMB769.7 million) for the banking facilities granted to the Group for the financing of the daily working capital and capital expenditure plans of the Group's operations in the Netherlands.

FOREIGN EXCHANGE RISK

The operations of the Group are mainly carried out in the PRC, the Netherlands and Australia. During the Year 2016, revenue, cost of sales and operating expenses of the Group are mainly denominated in Renminbi ("RMB"), Hong Kong dollars ("HK$"), United States dollars ("US$"), Australian dollars ("AUD") or EURO ("EUR") and RMB is the Group's presentation currency. Besides, most of the bank deposits and bank loans of the Group are denominated in RMB and EUR, respectively. The Group is exposed to potential foreign exchange risk as a result of fluctuation of HK$, US$, AUD or EUR against RMB.

Starting from 2016, the Group adopts a hedging policy to actively manage its currency risk exposure concerning non-RMB denominated indebtedness. Depending on the market circumstances, trend of currency rates and the cost of hedging, the Group will consider and enter into hedging arrangement to mitigate the impact of RMB depreciation.

During the Year 2016, the Group entered into a EUR against RMB capped forward contracts of EUR5,000,000 (Year 2015: Nil) to hedge certain of its EUR denominated indebtedness. The management will monitor closely on its foreign currency exposure to ensure appropriate measures are taken promptly against any significant potential adverse impact.

INTEREST RATE RISK

The Group has exposure to the risk of change in market interest rate in relation to its interest-bearing bank loans and other borrowings with a floating interest rate. In order to minimise the impact of the interest rate exposure, the Group entered into interest rate swap contracts with bank, effective from 1 October 2007 and 30 September 2015, of a notional amount of EUR2.5 million and EUR19.0 million with 3-month floating EURO Interbank Offered Rate being swapped to a fixed interest rate of 4.45% and 2.77% per annum, respectively. The aforesaid derivative financial instrument will expire in October 2017 and June 2020, respectively.

CREDIT RISK

The Group seeks to maintain strict control over its outstanding receivables and closely monitors the collection to minimize credit risk. As the Group's exposure spreads over a diversified portfolio of customers, there is no significant concentration of credit risk.

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

COMMITMENTS

As at 31 December 2016, the Group, as lessee, had total future minimum lease payments under non-cancellable operating leases amounting to RMB19.1 million (2015: RMB16.3 million).

As at 31 December 2016, the Group had contracted, but not provided for, capital commitments in respect of purchase of plant and machineries and the building of the Green Factory and the plant in New Zealand of a total of RMB461.3 million (2015: RMB172.9 million).

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant contingent liabilities (2015: Nil).

USE OF PROCEEDS FROM OPEN OFFER

In order to finance the future investments and long-term growth of the Group, on 28 October 2015, the Company proposed to raise approximately HK$249.55 million (before expenses) by way of an open offer of 113,430,230 offer shares (the "Offer Shares") at the offer price of HK$2.20 per Offer Share on the basis of one Offer Share for every ten existing shares of the Company (the "Open Offer"). The dealing of the Offer Shares commenced on 22 December 2016. The gross and net proceeds raised from the Open Offer amounted to approximately HK$249.55 million and approximately HK$248.37 million, respectively.

The net proceeds from the Open Offer were fully utilised in the Year 2016 as planned, details of which are disclosed in the circular of the Company dated 27 November 2015.

HUMAN RESOURCES

Number of full-time employees	Mainland China	Hong Kong	The Netherlands	Australia and New Zealand	Others	Total
31 December 2016	1,993	4	452	62	120	2,631
31 December 2015	1,455	4	398	–	83	1,940

For the Year 2016, total employee costs, including Directors' emoluments, amounted to RMB364.5 million (Year 2015: RMB272.2 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale.

The Group provides a defined contribution mandatory provident fund for retirement benefits of its employees in Hong Kong and various plans in either defined benefit or defined contribution arrangements for the retirement benefits of its employees in the Netherlands. The Group also provides various welfare schemes as required by the applicable local laws and regulations to its employees in the PRC and other countries.

SHARE OPTION SCHEME

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

During the Year 2016, a total of 46,815,000 share options were granted to certain eligible participants, among which 6,100,000 were granted to the Directors. Details of the share options granted are set out in the announcements of the Company dated 21 January 2016 and 6 July 2016.

DIVIDEND

The Board is pleased to recommend the payment of a final dividend of HK$0.05 (Year 2015: HK$0.03) per Share for the Year 2016 to be distributed out of the Company's share premium account, subject to the approval of the shareholders of the Company (the "Shareholders") at the forthcoming annual general meeting of the Company. As at the date of this announcement, there is no arrangement with any Shareholders under which he/she/it has waived or agree to waive any dividends.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Shares during the Year 2016 and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to raising the standard of corporate governance within the Group at all times and believes that good corporate governance helps the Group to safeguard the interests of the Shareholders and improve its performance.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules as its own code of corporate governance practices. The Board also strives to implement the best practices embodies in the CG Code where feasible and as far as practicable.

In the opinion of the Directors, the Company has complied with the respective code provisions of the CG Code during the Year 2016 and up to the date of this announcement.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules as the standards for the Directors' dealings in the securities of the Company. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers for the Year 2016 and up to the date of this announcement.

AUDIT COMMITTEE

The audit committee of the Board comprises three independent non-executive Directors, namely, Mr. Lau Chun Fai Douglas, Ms. Ho Mei-Yueh and Mr. Jason Wan. The audit committee has reviewed the audited consolidated financial statements of the Group for the Year 2016 including the accounting principles and practices adopted by the Group and discussed with the management of the Company on matters relating to auditing, risk management and internal controls and financial reporting.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual report of the Company for the Year 2016, which contains the detailed results and other information of the Company for the Year 2016 required pursuant to Appendix 16 to the Listing Rules, will be despatched to the Shareholders and published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.ausnutria.com.hk in due course. This announcement can also be accessed on the above websites.

By order of the Board
Ausnutria Dairy Corporation Ltd
Yan Weibin
Chairman

Changsha City, the People's Republic of China, 14 March 2017

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Yan Weibin (Chairman), Mr. Lin Jung-Chin, Mr. Bartle van der Meer (Chief Executive Officer) and Ms. Ng Siu Hung; two non-executive Directors, namely Mr. Tsai Chang-Hai and Mr. Zeng Xiaojun; and three independent non-executive Directors, namely Ms. Ho Mei-Yueh, Mr. Jason Wan and Mr. Lau Chun Fai Douglas.