澳优·海普诺凯
Ausnutria

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)

Milk

Love

Future

Annual Report **2011**

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Chairman's Statement

TO ALL SHAREHOLDERS:

I hereby present the annual report with the annual results (the "**2011 Annual Results**") of Ausnutria Dairy Corporation Ltd (the "**Company**") and its subsidiaries (the "**Group**") for the year ended 31 December 2011 together with the comparative figures (as restated) for the corresponding years in 2010 and 2009.

First of all, on behalf of the board (the "**Board**") of directors (the "**Directors**") of the Company, I would like to take this opportunity to express our sincere apologies to all shareholders of the Company (the "**Shareholders**"), potential investors, business partners and other stakeholders for the suspension of the trading of the shares of the Company (the "**Shares**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 29 March 2012 (the "**Suspension**") due to the delay in publishing the 2011 Annual Results as a result of the Unresolved Issues (as defined below) identified by Ernst & Young ("**EY**"), the auditors of the Company. The Company is working towards the resumption in trading of the Shares (the "**Resumption**").

UNRESOLVED ISSUES IDENTIFIED BY EY

The major events relevant to the Unresolved Issues are set out below:

Date	**Events**
29 March 2012	a letter (the "**EY Letter**") issued by EY to the Board in respect of various unresolved issues relating to, among other things, the amount of sales of Ausnutria Dairy (China) Co., Ltd. ("**Ausnutria China**", a major indirect wholly-owned subsidiary of the Company) for the financial year ended 31 December 2011 (in particular for the month of December 2011), and accordingly, its inventories and trade receivables as at 31 December 2011 (the "**Unresolved Issues**", and as set out in details in the section headed "Unresolved Issues" below)
29 March 2012	suspension of trading of the Shares due to the expected delay in publishing the 2011 Annual Results and despatching of the relevant annual report for the financial year ended 31 December 2011 as a result of the Unresolved Issues identified by EY
29 March 2012	establishment of the special review committee (which comprised two of the independent non-executive Directors, namely Mr. Qiu Weifa and Mr. Chan Yuk Tong) (the "**SRC**") by the Board to look into the Unresolved Issues
29 March 2012	engagement of King & Wood Mallesons ("**KWM**") by the SRC as the legal advisors to the SRC and the Board to advise on the matters relating to the Unresolved Issues
7 May 2012	appointment of PKF Consulting Inc. ("**PKF**"), an internal control adviser, by the SRC to assist in the review (the "**Internal Control Review**") of the internal control systems of the Company and Ausnutria China which might have given rise to the Unresolved Issues

Date	Events
4 June 2012	appointment of PricewaterhouseCoopers Limited ("**PwC**") as an independent professional advisor by KWM, in their capacity as the legal advisors to the SRC, to conduct a forensic review (the "**PwC Review**") on certain observations by EY in respect of the Unresolved Issues
26 June 2012	letter from the Stock Exchange where the Stock Exchange stated the resumption conditions for the Company
3 May 2013	appointment of Asian Capital (Corporate Finance) Limited as the financial advisor for the Resumption by KWM, in their capacity as the legal advisors to the Board
7 June 2013	restructuring of the Board and senior management of Ausnutria China with the appointment of (a) Mr. Yan Weibin ("**Mr. Yan**", an executive Director) as chairman of the Company; (b) Mr. Bartle van der Meer ("**Mr. van der Meer**") as chief executive officer of the Company and executive Director; and (c) Mr. Dai Li ("**Mr. Dai**") as non-executive Director
12 August 2013	the issuance of the PwC forensic review report (the "**PwC Report**") in relation to the Unresolved Issues
18 August 2013	announcement made by the Company in respect of the key findings of the PwC Review and the preliminary management responses to the findings of PwC Review as well as certain remedial actions carried out by the Company and Ausnutria China
1 November 2013	completion of the Internal Control Review and the issuance of the internal control review report by PKF in relation to weaknesses in the internal control systems of the Company and Ausnutria China which might have given rise to the Unresolved Issues
11 November 2013	announcement made by the Company in respect of the results of the Internal Control Review of PKF

Unresolved Issues

During the course of the audit of the 2011 Annual Results, EY reported the Unresolved Issues to the Board by way of the EY Letter on 29 March 2012.

According to the EY Letter, EY were unable to carry out an effective audit work of the Group for the financial year ended 31 December 2011 primarily in respect of the revenue, inventory and accounts receivable due to the failure of Ausnutria China to provide accurate sales and goods delivery information.

Chairman's Statement

The Unresolved Issues relating to Ausnutria China as identified by EY in the EY Letter mainly include the following:

i) the authenticity of delivery notes relating to certain sale transactions in December 2011;

ii) the integrity of the original sales order system and the barcode system; and

iii) the discrepancy in the quantity of goods sold and delivered during January to November 2011 between Ausnutria China's records and those provided by the independent logistic service provider engaged by Ausnutria China (the "**Logistic Service Provider**").

On 29 March 2012, in the interest of the Company and the Shareholders as a whole, the Company applied for the Suspension with the Stock Exchange. Details in relation to the Unresolved Issues are set out in the announcement of the Company dated 28 June 2013.

Establishment of the SRC

In view of the Unresolved Issues identified by EY, the Board established the SRC (which comprised two of the independent non-executive Directors, namely Mr. Qiu Weifa and Mr. Chan Yuk Tong) on 29 March 2012 to, among other things, look into the Unresolved Issues.

The SRC was concerned with the Unresolved Issues and, accordingly, took initiative to request the management (the "**Management**") of the Company (which comprised the chief financial officer of the Company and several senior managers of Ausnutria China who were not associated in any way with the Unresolved Issues) to carry out reviews to, among other things, quantify the financial impact in relation to the Unresolved Issues. Based on its review, the Management informed the SRC that certain sale transactions of Ausnutria China in December 2011 (amounting to approximately RMB123 million (equivalent to approximately RMB143.5 million inclusive of 17% value-added-tax in the PRC (the "**VAT**")) (the "**Questionable December Transactions**") with order numbers starting with "6", in which the underlying documents including but not limited to warehouse packing lists, delivery notes, return receipts and subcontractors' delivery notes appeared to be different from the samples of the transactions for other months in 2011. The Questionable December Transactions should not have been recognised as sales in December 2011 as it transpired that the relevant goods involved in the Questionable December Transactions had not been delivered to the distributors on or before 31 December 2011.

Forensic Review by PwC

In view of the Unresolved Issues, the Company and the SRC have promptly resolved to carry out an independent forensic review on certain observations made by EY in the EY Letter in respect of the Unresolved Issues. The SRC and the Board appointed KWM as their legal advisors to advise on matters arising from the Unresolved Issues. In their capacity as the legal advisors to the SRC, KWM appointed PwC on 4 June 2012 as an independent professional adviser to carry out the PwC Review. Upon the commencement of the PwC Review, the Management provided PwC with a list of the Questionable December Transactions.

The key findings of the PwC Review include the following:

(i) the Questionable December Transactions should not have been recognised as sales of Ausnutria China in December 2011 as the goods involved were not delivered to the relevant distributors in December 2011. Further, there were other questionable transactions for the period from January to November 2011 bearing similar patterns to the Questionable December Transactions (collectively, the "**Questionable Transactions**");

(ii) the integrity of the old sales order system (the "**Old Sales Order System**") and the warehouse barcode system of Ausnutria China is questionable;

(iii) there were discrepancies between the monthly quantity of goods delivered kept by the accounting department of Ausnutria China (the "**Accounting Records**") and information provided by the Logistic Service Provider during January to November 2011 as well as the discrepancies in the inventory movement records between the Accounting Records and Ausnutria China's warehouse records (the "**Warehouse Records**") in 2011;

(iv) certain material differences between reported sales and the value amounts of VAT invoices issued; and

(v) certain observations in relation to electronic data review.

In respect of the material differences as identified by PwC between the reported sales and the value amounts of the VAT invoices issued, the Management confirmed that Ausnutria China's monthly sales revenue as set out in its financial statements were consistent with the sales amounts reported and taxes paid to the PRC tax authorities as set out in its monthly VAT returns.

As advised by the PRC statutory auditors of Ausnutria China, (i) the reported sales without VAT invoices issued had in fact also been properly disclosed in the monthly VAT returns in accordance with the format as set out in the VAT returns and Ausnutria China had paid the relevant VAT to the PRC tax authorities; and (ii) the above reporting of VAT and non-issuance of VAT invoices is a widespread practice in the PRC and under such circumstances, the PRC tax authorities have not challenged the same. Further, the relevant PRC tax authorities raised no objection during the course of Ausnutria China's monthly submission and filing of the VAT returns with the PRC tax authority. In addition, the PRC statutory auditors of Ausnutria China are of the view that there has been no under-reporting nor under-payment of VAT or other taxes arising from the non-issuance of the official VAT invoices that were not requested by the distributors for the year ended 31 December 2011.

Further details of the above key findings of the PwC Review and the Company's preliminary management responses were set out in the Company's announcement dated 18 August 2013.

Chairman's Statement

The SRC and the Board are deeply concerned with the findings of the PwC Review and acknowledge the weaknesses in the internal control systems of Ausnutria China. Details of the Internal Control Review conducted by PKF are set out in the section headed "Internal Control Review by PKF" below.

Further, the SRC and the Board had doubts over the completeness and accuracy of the accounting records in relation to certain sales transactions and the corresponding cost of sales of Ausnutria China for the year 2011 under review. In addition, the Management attempted to substantiate and ascertain explanations in respect of the Questionable Transactions. However, the Management was not able to conclude its findings with satisfactory explanation in respect of the Questionable Transactions due to (i) the departure of certain employees of Ausnutria China who might have involved in the Questionable Transactions and the information gathered from other employees did not appear to be conclusive; (ii) some of the Accounting Records, the Warehouse Records and certain other supporting documents of Ausnutria China had been manually altered; and (iii) the lack of complete and accurate records of Ausnutria China, as the hard disk which hosted the Old Sales Order System had been inoperable since March 2012 and there was no back up data available. The Management has exhausted its resources to reconstruct the records relating to revenue and related accounts for the period from 1 January 2006 to 31 December 2011, details of which are set out in the section headed "Reconstruction of Records and Restatement and Adjustment of Financial Statements" below.

Remedial actions taken by the Company to address the matters arising from the Unresolved Issues

In view of the above, the Company has implemented remedial measures with a view to ensuring that situations similar to the Unresolved Issues would not arise in the future, including but not limited to the following:

(i) strengthening the information technology system (the "**IT System**") by (a) installing a bastion host (an equipment that keeps track the access and changes made to the servers which store all the critical business information of Ausnutria China) to monitor operation on the IT System; (b) implementing daily and monthly backup of the data in the IT System and engaged an independent IT consultant to test data restoration on a monthly basis; (c) backing up all the emails of Ausnutria China to a separate hard disk on a timely basis and all data in computers before they are reformatted and reassigned to new users; and (d) updating the IT system constantly so as to provide a better service and platform to its distributors as well as end customers, to improve its control in the distribution channels and the overall operational efficiency and to ensure its data integrity including that of production, distribution, inventory and sales orders;

(ii) strengthening the new sales order system (the "**New Sales Order System**") by requiring the distributors to acknowledge the receipt of goods online, and to ensure the distributors' free access to online review and check their order status and account balances with Ausnutria China;

(iii) strengthening the internal controls of Ausnutria China through monthly reconciliation of the records in the New Sales Order System, the Accounting Records, the Warehouse Records and the external records from the Logistic Service Provider in order to verify the quantity of goods delivered to the distributors recorded in the Accounting Records;

(iv) strengthening the accounts receivable management policies, including:

(a) requesting those distributors which have transactions with Ausnutria China in the month to confirm the month-end balances online. An accountant of Ausnutria China follows up the outstanding confirmations at the beginning of the following month; and

(b) collecting confirmations from the distributors by Ausnutria China and carrying out reconciliation with the distributors with a granted credit limit on a quarterly basis and with all distributors on an annual basis;

(v) amending the code of conduct and establishing the anti-fraud and whistleblowing policies and procedures, as well as communicating the above policies and procedures to all staff of the Company and Ausnutria China; obtaining undertakings for compliance with code of conduct from all the staff of the Company and Ausnutria China; and training on anti-fraud and whistleblowing policies and procedures has been provided to all the staff of the Company and Ausnutria China;

(vi) restructuring the Board and the senior management of Ausnutria China, including: (a) the resignation of Mr. Chen Yuanrong ("**Mr. Chen**") being the former chief executive officer of the Company and Ausnutria China; (b) the appointment of Mr. Yan as chairman of the Company; and (c) the appointment of Mr. van der Meer as executive Director and chief executive officer of the Company, all with effect from 7 June 2013; and

(vii) reporting the matters relating to the Unresolved Issues and the Questionable Transactions to the Bureau of Public Security in Changsha Municipal of Changsha (長沙市公安局) and the Bureau of Finance in Hunan Province (湖南省財政廳). According to the officers of the Bureau of Public Security in Changsha Municipal of Changsha, they would not deal with the reported matters nor commence any investigation into them at this stage as there was no report of misappropriation of assets of Ausnutria China arising from such reported matters. On the other hand, with the full cooperation of the Management, the Bureau of Finance has already commenced an investigation into the matter.

Internal Control Review by PKF

Upon EY advising the Unresolved Issues, the SRC was formed and took steps to look into the Unresolved Issues, and to ascertain if there were weaknesses in the internal control systems of the Company and Ausnutria China which might have given rise to the Unresolved Issues. In this connection, the SRC appointed PKF on 7 May 2012 as the internal control advisor to assist the SRC in reviewing the internal control systems of the Company and Ausnutria China which might be relevant to the weaknesses that might have given rise to the Unresolved Issues, particularly the sales cycle of Ausnutria China (the "**Internal Control Review**"). The SRC has also subsequently instructed PKF to address the internal control deficiencies raised by EY and covered in the PwC Report.

PKF completed the review and follow-up review of the internal control systems of the Company and Ausnutria China and submitted the report of the Internal Control Review to the SRC and the Board on 1 November 2013.

The objectives of the Internal Control Review are to (a) assist the SRC and the Board in identifying the weaknesses in the internal control systems of the Company and Ausnutria China which might have given rise to the Unresolved Issues; and (b) make recommendations to rectify the above weaknesses and/or enhance the procedures, systems and controls (including accounting and management policies) of the Company and Ausnutria China which might have given rise to the Unresolved Issues, with a view to prevent the Unresolved Issues from occurring again in the future.

PKF has made specific recommendations and rectification measures relating to certain components of the internal control systems at both entity-level and process-level of the Company and Ausnutria China during the Internal Control Review. PKF has reviewed the rectifications (including the quarterly reconciliation of balances with distributors with granted credit limits) carried out by the Company and Ausnutria China. Ausnutria China plans to perform annual reconciliation of balances with all distributors in January 2014 after the end of financial year 2013.

Based on the final results of its Internal Control Review during the second phase of the Internal Control Review between 27 May 2013 and 9 June 2013, PKF did not notice any material deficiencies in the entity-level and process-level components of internal control systems of the Company and Ausnutria China identified in the first phase of the Internal Control Review, which have not been rectified, and considers that the material internal control weaknesses that might have given rise to the Unresolved Issues raised by EY and covered in the PwC Report have been rectified.

Further details of the results of PKF's Internal Control Review were set out in the Company's announcement dated 11 November 2013.

Reconstruction of Records and Restatement and Adjustment of Financial Statements

Based on the results of the works (as further detailed below) performed by the Management in response to the findings of the PwC Review, the SRC and the Board consider that the errors relating to the early recognition of sales before delivery had occurred in Ausnutria China since October 2009 and extended into 2010 and 2011. The Company's previous published consolidated audited financial statements prior to 1 October 2009, including the financial information shown in the track record periods in the Company's prospectus dated 24 September 2009 (the "**Prospectus**") remained correct.

The SRC and the Board noted that each of the staff in the sales accounting department（營銷財務部）of Ausnutria China had kept an order book (the "**Order Books**") for the distributors, and for which that he/she had been responsible for since around 2005. The Order Books were prepared so as to keep track of the sales order status of and the cash receipts from Ausnutria China's distributors.

In view of the doubts over the completeness and accuracy of the afore-mentioned accounting records, as the Order Books were the best available alternative information that the SRC and the Board could reasonably rely on, the Management used the information maintained by the sales accounting department in the Order Books to summarise all the orders and cash receipt information and compared them to the financial statements of Ausnutria China from 1 January 2006 to 31 December 2011. Certain additional procedures were also carried out by the Management, including but not limited to, the confirmation and reconciliation of balances with the distributors as at 30 June 2013, certain roll-back procedures based on the confirmed balances of trade receivables and reconciling the cash receipts as set out in the Order Books with Ausnutria China's bank statements for the relevant years.

Based on the results of the PwC Review and the information available at the date of approval of the consolidated financial statements for the year under review, the Board and the SRC consider that the Questionable Transactions should be excluded from the preparation of the consolidated financial statements of the Group for the financial year ended 31 December 2011 and all significant adjustments (the "**Adjustments**") in relation to the Unresolved Issues should be put through to adjust the consolidated financial statements for the six-month period ended 31 December 2009 (and therefore for the year ended 31 December 2009) and for the year ended 31 December 2010 so as to reflect the errors due to the early recognition of revenue which had occurred since October 2009. Details of the basis of preparation of these consolidated financial statements for the years ended 31 December 2009, 2010 and 2011 and the Adjustments are set out in notes 2.1 and 2.5 to the financial statements in this report, respectively.

Observations of the SRC and the Board

The SRC and the Board regret for the acts or failings of certain personnel have caused serious harm to the Group. Notwithstanding the above, the SRC and the Board consider that the business of the Group is sound and they have not identified any material asset misappropriation in the Group. In view of the results of the Internal Control Review and all the rectification actions taken by the Company and Ausnutria China, the SRC and the Board consider that the material internal control weaknesses that might have given rise to the Unresolved Issues raised by EY and covered in the PwC Report have been rectified. The SRC and the Board are committed to (i) supervising the management of the Company and Ausnutria China to complete the implementation of PKF's recommendations to rectify the outstanding medium risk internal control weaknesses; and (ii) maintaining sound and effective internal controls to safeguard shareholders' investment and the Group's assets. The Group is in the process of engaging PKF to conduct a review of the other internal control components of the Group not yet covered by the Internal Control Review. Further announcement(s) will be made by the Company when this further internal control review is completed.

Resumption conditions imposed by the Stock Exchange

As set out in the Company's announcement dated 3 July 2012, on 26 June 2012, the Company received a letter from the Stock Exchange, in which the Stock Exchange stated the following resumption conditions for the Company:

(a) ensure the independent professional adviser engaged by the SRC to conduct forensic audit and investigation to address all the Unresolved Issues raised in the EY Letter;

(b) inform the market of all information (including those matters highlighted in the EY Letter and the findings of the independent professional adviser in this regard) that is necessary to appraise the Group's position, including their implications to the Group's assets, financial and operational position;

(c) publish all outstanding financial results and reports, and address any concerns raised by the Company's auditors through qualifications in their audit report or otherwise; and

(d) demonstrate that there are no significant deficiencies in the Group's corporate governance, and that the Company has put in place adequate financial reporting procedures and internal control systems to meet obligations under the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The Company should also comply with the Listing Rules and all applicable laws and regulations in Hong Kong and its place of incorporation before the Resumption. The Stock Exchange may modify any of the above and/or impose further conditions at its discretion.

Apart from the issue of the PwC Report to KWM on 12 August 2013 which fulfils condition (a) set out above, the Company is taking active steps including the publication of the 2011 Annual Results to satisfy the other conditions to seek the Resumption as soon as possible.

BUSINESS OVERVIEW

The global dairy market has continued to grow over the past few years, particularly in the PRC which was driven by macro factors such as strong economic growth, increasing disposable income and rising rates of urbanisation, as well as industry-specific factors including rising health awareness and consumer preferences.

As one of the key components of the PRC dairy market, the paediatric milk formula market has been expanding rapidly as well. The increasing number of working mothers in the PRC, coupled with the convenience and comprehensive nutritional benefits offered by infant formula products, have resulted in growing popularity among mothers in the PRC to choose infant formulas for their children. In recent years, paediatric milk formula powder brands with high quality raw milk sourced from overseas have gained increasing market shares.

The year ended 31 December 2011 (the "**Year 2011**") and the periods thereafter were complicated and challenging. While it is the Board's priority to deal with the Unresolved Issues and to seek for the Resumption, the Board has taken strategic moves to build the Group's upstream production and procurement capability and to capture the growing markets in the PRC and other overseas markets. A summary of the key developments of the Group that took place during and subsequent to the Year 2011 is set out below:

Date	**Events**
2011	
29 March	The Company entered into a binding letter of intent with Dutch Dairy Investments B.V. ("**DDI**"), in respect of the proposed acquisition of 51% equity interests in Ausnutria Hyproca B.V. (formerly Hyproca Dairy Group B.V.) ("**Ausnutria Hyproca**", together with its subsidiaries, the "**Ausnutria Hyproca Group**").
14 May	Ausnutria China set up a membership loyalty sales system to allow the Group to track its products to end-customers as well as to capture the consumer behavior patterns and encourage loyalty of end-customers.
28 May	Ausnutria China started upgrading its IT System based on the Oracle Enterprise Resource Planning (ERP), Customer Data Management (CDM) and Customer Relationship Management (CRM) platforms with the assistance of IBM.

Date	Events
30 June	The Group and DDI (and others) entered into a subscription agreement (the "**Subscription Agreement**") to subscribe for approximately 19.44% of the enlarged equity interests in Ausnutria Hyproca at a consideration of EURO 6,282,500 (equivalent to approximately RMB59.5 million) as adjusted for the contingent consideration (the "**Subscription**") (please refer to note 34 to the financial statements in this report).
19 July	The Group and DDI entered into an acquisition agreement (the "**Acquisition Agreement**") to acquire approximately 31.56% of the equity interests in Ausnutria Hyproca from DDI at a consideration of EURO 10,369,000 (equivalent to approximately RMB94.7 million) as adjusted for the contingent consideration (the "**Acquisition**") (please refer to note 34 to the financial statements in this report).
14 October	The Acquisition was approved by the Shareholders at the extraordinary general meeting of the Company.
2012	
21 March	The Group entered into an agreement with the Medical School of Beijing University to form a 10-year strategic cooperation for the joint research and development of paediatric milk formula in the PRC.
11 May	Ausnutria China established a new business unit (the Puredo division) with an aim to penetrating its sales and distribution of a series of new paediatric milk formula into second and third tier cities in the PRC under the brand name of "Puredo".
24 July	The Ausnutria Hyproca Group set up a 51% joint venture, namely Hyproca Nutrition East Limited, for the distribution of the products of the goat milk paediatric milk formula (the "**Kabrita Series**") in Russia.
19 October	The Ausnutria Hyproca Group acquired the remaining 8.4% equity interests in Lyempf Kampen B.V. (formerly Hyproca Lyempf B.V.) ("**Hyproca Lyempf**"), a 91.6% owned subsidiary of Ausnutria Hyproca.
30 November	The Company, Ausnutria Dairy (Dutch) Coöperatief U.A. ("**Ausnutria Dutch**", a wholly-owned subsidiary of the Group), DDI and Ausnutria Hyproca entered into a letter of intent in relation to the proposed purchase by Ausnutria Dutch from DDI the remaining 49% equity interests in Ausnutria Hyproca to be settled by the issuance of new Shares.

Chairman's Statement

Date	Events
2013	
18 March	The Group commenced the preparation of a comprehensive feasibility study of building the headquarters and a new factory of the Ausnutria Hyproca Group (the "**New Factory**") for the processing, production and packaging of paediatric nutrition products in Heerenveen in the Netherlands.
28 March	Ausnutria China launched a new product line, namely, the Hyproca 1897 Series, the formula of which was jointly developed with the Medical School of the Beijing University and manufactured by the Ausnutria Hyproca Group specifically for the PRC market.
22 April	The Ausnutria Hyproca Group set up a 60% owned joint venture, namely Hyproca Nutrition Middle East FZCO, for the distribution of Kabrita Series of products in the Middle East.
7 June	The Company, Ausnutria Dutch and DDI entered into the call option agreement pursuant to which DDI granted to Ausnutria Dutch the right to acquire the remaining 49% equity interests in Ausnutria Hyproca held by DDI by the issuance of 202,125,000 new Shares to DDI.
18 September	The Company was informed that there is a proposed purchase by an independent third party from certain major shareholders of the Company in relation to a portion of their Shares, which, if materialised, may lead to the purchaser making a mandatory offer for all the Shares (other than those already owned by or agreed to be acquired by the purchaser or its concerted parties) in accordance with Rule 26.1 of the Code on Takeovers and Mergers of Hong Kong (the "**Proposed Transaction**").
28 October	The Board has approved (i) the incorporation of two joint ventures, both of which are to be owned as to 75% by the Ausnutria Hyproca Group, for the distribution of Kabrita Series of products in the United States of America (the "**United States**") and Canada; and (ii) the commencement of the clinical trials of Kabrita Series of products for the application of approval from the Food and Drug Administration (the "**FDA**") of the United States for the sale of Kabrita Series products in the United States.
1 November	The Board approved the purchase of a plot of land in Heerenveen, the Netherlands, of a size of approximately 140,000 square meters (the "**Land**") for the intended construction of the New Factory.

Acquisition of the Ausnutria Hyproca Group

On 3 July 2011, the Group completed the Subscription for approximately 19.44% of the enlarged equity interests in Ausnutria Hyproca at a consideration of EURO 6,282,500 (equivalent to approximately RMB59.5 million) as adjusted for the contingent consideration (please refer to note 34 to the financial statements in this report).

The Group and DDI entered into the Acquisition Agreement to acquire approximately 31.56% of the equity interests in Ausnutria Hyproca from DDI at a consideration of EURO 10,369,000 (equivalent to approximately RMB94.7 million) as adjusted for the contingent consideration (please refer to note 34 to the financial statements in this report). On 17 October 2011, the Group completed the Acquisition of approximately 31.56% equity interests in Ausnutria Hyproca, resulting in the Group controlling 51% equity interests in Ausnutria Hyproca and Ausnutria Hyproca becoming an indirect non-wholly-owned subsidiary of the Company thereafter.

Details of the Subscription and the Acquisition were set out in the announcements of the Company dated 29 March 2011, 13 June 2011, 4 July 2011 and 20 July 2011 and the circular (the "**Acquisition Circular**") of the Company dated 23 September 2011. The Acquisition was approved by the Shareholders at the extraordinary general meeting held on 14 October 2011 and was completed on 17 October 2011.

The Ausnutria Hyproca Group is principally engaged in the dairy industry with production facilities and milk sources based in the Netherlands. Its activities range from research and development, milk collection, processing, production, packaging, marketing and sales of dairy products to customers in the Netherlands and other overseas countries.

As set out in the Acquisition Circular, on 21 April 2011 (i.e. prior to the completion of the Subscription and the Acquisition), the Ausnutria Hyproca Group, through its newly incorporated vehicle, Hyproca Lyempf, completed the acquisition from a trustee (which were independent third parties to the Company and its connected person) of certain assets. The assets, include fixed assets (such as plant for pre-processing of raw milk, two spray dryers with capacity of 27,000 tons of powder), inventories and intangible assets such as brand name and list of customers, etc. (the "**Distressed Assets**"). In connection with the acquisition of the Distressed Assets, the Ausnutria Hyproca Group also entered into a leasing agreement with an independent third party in respect of the leasing of land and factory premises (the "**Leased Premises**") for the operation of Hyproca Lyempf. Pursuant to the leasing agreement, the Ausnutria Hyproca Group had the right to purchase the Leased Premises at a pre-determined consideration of EURO 5.3 million (equivalent to approximately RMB47.8 million) (the "**Land Consideration**"). In order to secure the production base of Hyproca Lyempf, the Leased Premises were acquired by the Ausnutria Hyproca Group prior to the completion of the Acquisition on 8 September 2011 at the Land Consideration.

Further details of the financial impact of the Subscription and the Acquisition are set out in note 34 to the financial statements in this report.

Chairman's Statement

The contribution of revenue and profit after tax to the Group by the Ausnutria Hyproca Group since its becoming subsidiaries of the Company on 17 October 2011 amounted to approximately RMB211.9 million and RMB12.3 million, respectively. In addition, the Group's share of profits from the Ausnutria Hyproca Group for the period when it was accounted for as an associate (period from the completion of the Subscription to the date when the Ausnutria Hyproca Group became a subsidiary of the Group on 17 October 2011) amounted to approximately RMB4.8 million. The total contributions of the Ausnutria Hyproca Group to the Group's profit after tax but before non-controlling interests therefore amounted to approximately RMB17.1 million during the financial year ended 31 December 2011, which was in line with management expectation.

Revenue of the Group (excluding the Ausnutria Hyproca Group) (the "**Ausnutria Group**") for the year ended 31 December 2011 amounted to approximately RMB417.3 million, represented a decrease of approximately 18.8% when compared with the restated revenue of the Ausnutria Group for the year ended 31 December 2010 of approximately RMB513.9 million, which in turn represented a decrease by 5.8% when compared with that for the year ended 31 December 2009 (as restated) of approximately RMB545.6 million.

The profit attributable to the owners of the parent of the Ausnutria Group for the year ended 31 December 2011 amounted to approximately RMB33.2 million (year ended 31 December 2010 (as restated): RMB60.0 million; year ended 31 December 2009 (as restated): RMB142.2 million).

The decrease in revenue and operating performance of the Ausnutria Group for the years ended 31 December 2011 and 2010 was mainly due to the restructuring of the sales channel, whereby the Ausnutria Group established a number of associated companies together with some of its sales staff and local distributors in 2010 with an aim to better penetrate into respective markets in the PRC. The setting up of these sales channels via these associated companies was subsequently found to be ineffective. On the other hand, the market competition of the paediatric nutritional products in the PRC further intensified and the Ausnutria Group unfortunately failed to adjust its focus from sales-oriented to the consumer service-oriented. The then business model of the Ausnutria Group had also been widely copied during the year with more new players entered the market and new brands launched to directly compete in this fast growing industry in the PRC. Because of its internal sales network mismanagement and intensified market competition, the Ausnutria Group lost some of its market shares.

The decrease in operating performance of the Ausnutria Group in 2011 was partly compensated by the contribution from the consolidation of the operating performance of the Ausnutria Hyproca Group which became a 51% owned subsidiary of the Company since 17 October 2011, as follows:

	Year ended 31 December			Six months ended
	2011	2010	2009	30 June 2009
	RMB'M	RMB'M	RMB'M	RMB'M
		(Restated)	(Restated)	(As previously reported*)
REVENUE:				
– Ausnutria Group	**417.3**	513.9	545.6	321.0
– Ausnutria Hyproca Group	**211.9**	–	–	–
– Group (including the Ausnutria Hyproca Group)	**629.2**	513.9	545.6	321.0
PROFIT AFTER TAX BUT BEFORE NON-CONTROLLING INTERESTS:				
– Ausnutria Group	**38.1**	60.0	142.2	65.2
– Ausnutria Hyproca Group	**12.3**	–	–	–
– Group (including the Ausnutria Hyproca Group)	**50.4**	60.0	142.2	65.2

* No restatement arising from the Adjustments is required to be done

Further details regarding the operating performance of the Ausnutria Group and the Ausnutria Hyproca Group are set out in the section headed "Management Discussion and Analysis" of this report.

OUTLOOK

In early 2013, the PRC government launched a series of new policies (the "**New Policies**") to improve the national standard for the safety of dairy products which accelerates the consolidation of the paediatric milk powder industry and would eventually lead to the elimination of small and medium enterprises in this industry. The Group believes that the New Policies will create more opportunities to its future growth.

Furthermore, on 15 November 2013, in the Third Plenary Session of the 18th Central Committee of the Communist Party of the PRC, it was announced that the one-child policy which has been in existence for more than thirty years will be relaxed. The Group believes that this policy will lead to a boost in the demand for paediatric milk powder, benefiting in the long run the paediatric milk powder manufacturers who can meet the national standard under the New Policies, including the Group.

Chairman's Statement

On 7 June 2013, the Group entered into a call option agreement (the "**COA**") with DDI under which Ausnutria Dutch was granted a call option by DDI and Ausnutria Dutch had the right to exercise at its sole discretion to acquire the remaining 49% equity interests in Ausnutria Hyproca (a 51%-owned subsidiary of the Group) to be settled by the issuance of 202,125,000 new Shares (the "**COA Shares**"), representing approximately 17% of the enlarged issued share capital of the Company. To facilitate the further integration of the business of the Ausnutria Hyproca Group into the Group and with an aim to strengthening the management of the Company with international perspective, Mr. van der Meer, one of the shareholders and directors of Ausnutria Hyproca with ample international experience in banking, investment and paediatric nutritional products, was appointed as executive Director and chief executive officer of the Company on the same date. Details of the COA and the change of Directors were set out in the announcement of the Company dated 7 June 2013.

The Group believes that the acquisition of Ausnutria Hyproca not only broadens and secures the Group's long term milk supply sources, but will also provide a very good platform for the globalisation of the Group's businesses in the long run.

In order to cater for the long term growth and demand of paediatric nutritional products, the Group has adopted the following strategies:

Strengthening the management of our customers and distributors' relationship in the PRC

In 2011, the Group invested in new information systems by investing in the latest version of the Enterprise Resource Planning (ERP), Customer Data Management (CDM) and Customer Relationship Management (CRM) systems with the assistance of IBM. One of the reasons of setting up these new systems is to provide better services to the Group's customers as well as distributors by implementing a membership program and reward system for the customers and an on-line platform for orders placing and timely monitoring of the account activities with its distributors.

Through the new information systems, the Board believes that the Group will be able to establish in the long run a closer relationship with its customers and distributors, understand the consumer behavior and exercise tighter internal controls over the order status of its sales channels.

Continuing the strategy of upward integration

The Board believes that the ability to ensure a stable quality supply of infant formula is one of the critical success factors to the Group. The Group will continue to explore investment opportunities to invest in upstream milk powder related assets and operations in order to broaden the Group's milk powder supply sources, to diversify the Group's risks in this aspect and to ensure a stable quality supply of milk powder to support its business growth.

Increase the production capacity in the Netherlands

The Ausnutria Hyproca Group is located in the Netherlands, where there is ample supply of quality cow and goat milk. The demand of dairy products produced by the Ausnutria Hyproca Group has been increasing over the past years. In order to cater for this increasing demand, the Group had advanced to the Ausnutria Hyproca Group a shareholder loan of EURO 7.0 million (equivalent to approximately RMB58.8 million) in June 2013 and is in the process of obtaining Shareholders' approval for another shareholder loan of EURO 10.0 million (equivalent to approximately RMB84.0 million) (the "**Second Shareholder Loan**") pursuant to a loan agreement dated 1 November 2013 to finance the capital expenditure plans, including but not limited to the acquisition of the Land in the Netherlands for the intended construction of the New Factory and the purchases of new machineries (the "**CAPEX Plan**"). Details of the shareholder loans are set out in the announcements of the Company dated 7 June 2013 and 5 November 2013. The Second Shareholder Loan and the transactions thereof will be presented to independent Shareholders for approval at the forthcoming extraordinary general meeting of the Company on 6 December 2013.

Upon the implementation of the CAPEX Plan in the first half of 2014, the production capacity of the Ausnutria Hyproca Group will be increased.

Launch of goat milk based infant formula and other series of products

The Ausnutria Hyproca Group specialises in the complete chain of collecting fresh Dutch goat milk from farms to finished goods and is a leading producer of goat milk in the world. The Group has commenced the launch of Kabrita Series products in the PRC since the fourth quarter of 2011. In that same year and in 2012, the Group entered into agreements with the Medical School of Beijing University for conducting a series of clinical trials of Kabrita products, the results of which have concluded that goat milk-based powder is better for children than cow milk-based powder in a number of different aspects, including nutrition, the development of immune system, etc.

In October 2013, the Group approved the conducting of the clinical trials for the application of the approval from the FDA for the sale of Kabrita Series of products in the United States.

For the period from 1 January 2013 to the date of this report, the unaudited revenue derived from the Kabrita Series of products in the PRC already exceeded RMB120.0 million.

The Group has also formed joint ventures with independent third parties for the sales of Kabrita Series products in Russia and the Middle East in 2012 and 2013, respectively, and is finalising joint ventures with certain experienced research and marketing professionals to promote Kabrita Series products in the United States and Canada. The Group will continue to launch Kabrita Series products in other major countries with an aim to becoming one of the market leaders of goat milk based paediatric nutrition products in the long run, by leveraging on the Ausnutria Hyproca Group's resources in the Netherlands and in North America and the studies and clinical trial results conducted by the Medical School of Beijing University.

In addition, the Group has launched a series of new products under different cow milk infant formula, namely, the Puredo Series and the Hyproca 1897 Series in 2012 and 2013, respectively, which are targeted to penetrate into different sectors of the PRC market.

Despite the increasing market competition of paediatric nutritional products in the world, particularly in the PRC, the Board believes that the Group is well positioned to face the challenge ahead and is optimistic about its future.

Strategic cooperation with the Medical School of Beijing University

On 21 March 2012, the Group entered into an agreement with the Medical School of Beijing University to form a 10-year strategic cooperation for the joint research and development of paediatric milk formula for the PRC market. The Group believes that the cooperation with the Medical School of Beijing University will greatly enhance the future research and development capability of the Group by leveraging on the resources of the Medical School of Beijing University as well as the Group.

Chairman's Statement

Production and distribution tracking systems

Thanks to the investment of the IT System in 2011 with world standard partners with upgrading programs kicked off in 2013, the Group has successfully launched the full tracking systems for its production and distribution, which are now new mandatory requirements under the New Policies in the PRC. With the new production tracking system, each tin of milk powder sold in the PRC is now marked with a unique barcode which allows the Group to trace back all the production details should there be any quality issue arisen subsequently. Further, the new tracking system would enable the Group to monitor and track the distribution progress and logistic status of products sold to the retail consumer level.

Last but not the least, the Group will continuously and proactively strengthen its corporate governance so as to establish a solid foundation for future growth and to rebuild the confidence of the Shareholders and potential investors. The Company will use its best endeavors to fulfill all the conditions as set out by the Stock Exchange for the Resumption and to continue to strive for the highest returns and value to the Shareholders in the long run.

As a result of the above steps taken by the Group subsequent to the reporting period, both sales and operating performance of the Ausnutria Group are gradually picking up and improving. On the other hand, the operating performance of the Ausnutria Hyproca Group is expected to be relatively stable due to the constraints of its current production capacity and the temporary interruption caused by the implementation of the CAPEX Plan.

The Company is now in the process of preparing the timetable for the publication of the interim results of the Group for the six months ended 30 June 2012 and 30 June 2013 together with the restated comparative figures for the corresponding periods in 2011 and 2010 as well as the annual results of the Group for the year ended 31 December 2012. Further announcements will be made by the Company if there are any updates regarding the above results announcements and financial reports.

APPRECIATION

I would like to take this opportunity to thank Mr. Wu and Mr. Chen for their past contributions as executive Directors and welcome Mr. van der Meer and Mr. Dai to join the Board.

Lastly, I would like to take this opportunity to thank the Group's customers, suppliers, distributors and business associates for their continuous support and trust. Also heartfelt thanks to the Board, senior management and all the Group's staff for their dedication and hard work throughout these difficult times.

Yan Weibin
Chairman

Changsha City, PRC
5 December 2013

Management Discussion and Analysis

BASIS OF PREPARATION AND RESTATEMENT OF FINANCIAL STATEMENTS FOR THE YEAR 2009 AND THE YEAR 2010

In view of the Unresolved Issues, the Management has used the information in the Order Books maintained by the sales accounting department of Ausnutria China to summarise all the orders and cash receipt information and compared them to the financial statements of Ausnutria China. Certain additional procedures were also carried out by the Management, including but not limited to, the confirmation and reconciliation of balances with the distributors as at 30 June 2013, certain roll-back procedures based on the confirmed balances of trade receivables and reconciling the cash receipts as set out in the Order Books with Ausnutria China's bank statements for the relevant years. For the reconstruction of the cost of sales, the Management has used the gross profit margins of respective products, which were determined with reference to the then selling prices and the cost of respective products in determining the cost of sales for each of the period/years then ended. All Adjustments on revenue and other related account balances of Ausnutria China in relation to the Unresolved Issues have been put through to adjust the consolidated financial statements of the Group for the six-month period ended 31 December 2009 (and therefore for the year ended 31 December 2009) and for the year ended 31 December 2010 so as to reflect the errors due to the early recognition of revenue which had occurred since October 2009. According to the Order Books, the Management found that there were substantial amount of sales returns recorded in early 2010 which were relating to sales that took place during the period from October 2009 to December 2009. As mentioned above, since the Order Books are the best available alternative information that the SRC and the Board could reasonably rely on, the Board has decided to adjust the consolidated financial statements of the Group for the six month period ended 31 December 2009 (and therefore for the year ended 31 December 2009) and for the year ended 31 December 2010 in accordance with the information as reflected in the Order Books. Details of the basis of preparation of the consolidated financial statements for the years ended 31 December 2009, 2010 and 2011 and the Adjustments are set out in notes 2.1 and 2.5 to the financial statements in this report, respectively.

However, since the relevant books and records of Ausnutria China are incomplete, no representation is made by the Board as to the completeness, occurrence and accuracy of the revenue, cost of sales and hence the corresponding gross profit that were attributed to the Ausnutria Group for the six-month period ended 31 December 2009 (and therefore for the year ended 31 December 2009), and for the years ended 31 December 2010 and 2011.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue and Gross Profit

	Year ended 31 December			Six months ended
	2011	2010	2009	30 June 2009
	RMB'M	RMB'M	RMB'M	RMB'M
		(Restated)	(Restated)	(As previously reported*)
REVENUE:				
– Ausnutria Group	417.3	513.9	545.6	321.0
– Ausnutria Hyproca Group	211.9	–	–	–
– Group (including the Ausnutria Hyproca Group)	629.2	513.9	545.6	321.0
GROSS PROFIT:				
– Ausnutria Group	193.7	263.2	268.4	136.3
– Ausnutria Hyproca Group	25.8	–	–	–
– Group (including the Ausnutria Hyproca Group)	219.5	263.2	268.4	136.3
	%	%	%	%
GROSS MARGIN:				
– Ausnutria Group	46.4	51.2	49.2	42.5
– Ausnutria Hyproca Group	12.2	–	–	–
– Group (including the Ausnutria Hyproca Group)	34.9	51.2	49.2	42.5

* No restatement arising from the Adjustments is required to be done

Management Discussion and Analysis

Revenue

For the Year 2011, the Group recorded revenue of approximately RMB629.2 million, representing an increase of approximately RMB115.3 million, or approximately 22.4%, from RMB513.9 million (as stated) for the year ended 31 December 2010 (the "**Year 2010**"). Excluding the contribution by the Ausnutria Hyproca Group which was consolidated into the financial statements of the Group since 17 October 2011, revenue of the Ausnutria Group amounted to approximately RMB417.3 million, representing a decrease of approximately RMB96.6 million, or approximately 18.8%, from the Year 2010 (as restated). The Group's restated revenue for the Year 2010 represented a decrease by approximately RMB31.7 million, or approximately 5.8%, from approximately RMB545.6 million (as restated) for the year ended 31 December 2009 (the "**Year 2009**").

During the Year 2011, A-choice Series, Best-choice Series, Allnutria Series and Allnutria Organic Series, continued to be the major series of paediatric milk formula of the Group which are all imported from overseas and are designed to target consumers for premium products in the PRC. In the fourth quarter of 2011, the Group first launched the Kabrita Series in the PRC. The Kabrita Series paediatric milk formula is produced in the Netherlands and is owned by the Ausnutria Hyproca Group.

The decrease in revenue of the Ausnutria Group was mainly due to the intense market competition of the paediatric dairy industry in the PRC. Despite more efforts have been put in advertising and promotion activities by launching a series of TV advertising programs in 2009 and 2010, the reorganisation of the sales and distribution system by the Group at the end of 2010 with the increase in sales discounts granted to the distributors and the establishment of the customer loyalty bonus scheme in 2011 has resulted in a decrease in revenue of the Ausnutria Group in the Year 2010 and the Year 2011 when compared with the respective corresponding years.

For additional information, an analysis of the revenue of the Ausnutria Hyproca Group (with and without Hyproca Lyempf) for the Year 2011 and the Year 2010 is as follows:

	2011 EURO'M	2010 EURO'M	2011 RMB'M equivalent	2010 RMB'M equivalent
Revenue from:				
– Ausnutria Hyproca Group (without Hyproca Lyempf)	63.1	37.2	569.3	339.4
– Hyproca Lyempf	30.7	–	277.0	–
	93.8	37.2	846.3	339.4
Less: Intercompany transactions	(6.1)	–	(55.1)	–
Total revenue of the Ausnutria Hyproca Group (with Hyproca Lyempf)	87.7	37.2	791.2	339.4

The significant increase in the revenue of the Ausnutria Hyproca Group for the Year 2011 was primarily attributed to the contributions of Hyproca Lyempf and the improvements in the operating performance of the other operating subsidiaries of the Ausnutria Hyproca Group which were driven by the continuously increasing demand for paediatric nutrition products from its customers in the Netherlands and other overseas countries due to the increasing recognition of the good quality of milk supply in the Netherlands.

Gross profit

Gross profit for the Year 2011 was approximately RMB219.5 million, representing a decrease of approximately RMB43.7 million, or approximately 16.6%, when compared with the Year 2010 (as restated). The gross margin of the Group for the Year 2011 decreased from approximately 51.2% for the Year 2010 (as restated) to 34.9%, primarily due to the change in sales mix after consolidating the results of the Ausnutria Hyproca Group.

Excluding the contribution by the Ausnutria Hyproca Group, gross profit of the Ausnutria Group for the Year 2011 amounted to approximately RMB193.7 million, representing a decrease of approximately RMB69.5 million, or approximately 26.4%, from the Year 2010 (as restated). The gross margin of the Ausnutria Group for the Year 2011 decreased from approximately 51.2% for the Year 2010 (as restated) to 46.4%, primarily due to higher discounts granted to distributors as an incentive for their promotion of the Ausnutria Group's products.

The restated gross profit for the Year 2010 was approximately RMB263.2 million, representing a slight decrease of approximately RMB5.2 million, or approximately 1.9%, when compared with the Year 2009 (as restated). The restated gross margin of the Group for the Year 2010 increased from approximately 49.2% for the Year 2009 (as restated) to 51.2%, primarily due to the launch of the organic series of paediatric nutrition products in the fourth quarter of 2009 which has contributed to a comparatively higher gross profit margin when compared with the other products of the Group.

For additional information, an analysis of the gross profit of the Ausnutria Hyproca Group (with and without Hyproca Lyempf) for the Year 2011 and the Year 2010 is as follows:

	2011 EURO'M	2010 EURO'M	2011 RMB'M equivalent	2010 RMB'M equivalent
Gross profit:				
– Ausnutria Hyproca Group (without Hyproca Lyempf)	6.0	3.5	54.1	31.9
– Hyproca Lyempf	5.8	–	52.3	–
Less: Intercompany transactions	(1.1)	–	(9.9)	–
Total gross profit of the Ausnutria Hyproca Group (with Hyproca Lyempf)	10.7	3.5	96.5	31.9
	%	%	%	%
Gross profit margin:				
– Ausnutria Hyproca Group (without Hyproca Lyempf)	9.5	9.4	9.5	9.4
– Hyproca Lyempf	18.9	–	18.9	–
– Ausnutria Hyproca Group (with Hyproca Lyempf)	12.2	9.4	12.2	9.4

The increase in the gross profit margin of the Ausnutria Hyproca Group for the Year 2011 was primarily due to the contribution of Hyproca Lyempf which had a higher gross profit margin when compared with the other products of the Ausnutria Hyproca Group.

Other income and gains

An analysis of other income and gains is as follows:

	Notes	2011 RMB'M	2010 RMB'M (As previously reported*)	2009 RMB'M (As previously reported*)
Interest income on held-to-maturity investments	(i)	**10.3**	9.0	–
Interest income on bank deposits	(ii)	**5.0**	3.9	4.2
Government grants	(iii)	**1.7**	4.7	–
Insurance compensation income	(iv)	**8.0**	–	–
Others		**1.0**	3.9	2.7
		26.0	21.5	6.9

* No restatement arising from the Adjustments is required to be done

(i) During the periods from 24 March 2010 to 17 March 2011, and from 29 April 2011 to 25 April 2012, the Group entered into two entrusted fund management agreements with independent third parties, pursuant to which, Ausnutria China entrusted a fund of RMB200 million each to purchase entrusted loans from various independent third parties. In view of a lack of financial products available to the Group, the Group invested in these treasury products offered by banks with a sole objective of maximizing the return with limited risks on the then excess cash position of the Group. The entrusted loans were classified as held-to-maturity investments in the respective statements of financial position and the interest income recognised on the entrusted loans for the Year 2011 and the Year 2010 amounted to RMB10.3 million and RMB9.0 million, respectively (Year 2009: Nil). A more prudent treasury approach was adopted since then to restrict the placing of the Group's excess cash only in deposits with reputable financial institutions.

Details of the entrusted loans are set out in the announcement of the Company dated 3 May 2011.

(ii) The increase in interest income was a result of the continuous improvements in the bank balances from the operating activities of the Group. The un-utilised portion of the proceeds from the global offering of the Shares in 2009 (the "**IPO**") that was deposited in banks also contributed to the increase in interest income.

(iii) The government grants mainly represented incentive income received from the government of the Hunan province for the continuous improvements on the quality controls of the products of Ausnutria China.

(iv) In late 2011, there was an accident out-broken in one of the production facilities of the Ausnutria Hyproca Group located in the Netherlands, which had caused a short-term suspension of the production facility in one of the production plants of the Ausnutria Hyproca Group. The Ausnutria Hyproca Group had entered into insurance policies against business interruption and protection of loss of property, plant and equipment from accidents. The Ausnutria Hyproca Group received a compensation income from the insurance company of approximately RMB8.0 million (Year 2010 and Year 2009: Nil) to cover all the incidental losses due to the accident. The Ausnutria Hyproca Group did not have any significant financial gain or loss resulting from the accident.

Selling and distribution costs

An analysis of selling and distribution costs is as follows:

	2011 RMB'M	2010 RMB'M (As previously reported*)	2009 RMB'M (As previously reported*)
Ausnutria Group:			
– Advertising and promotion	72.3	134.5	65.9
– Others	44.2	39.9	26.0
	116.5	174.4	91.9
Ausnutria Hyproca Group	10.8	–	–
	127.3	174.4	91.9

* No restatement arising from the Adjustments is required to be done

Selling and distribution costs mainly comprised of advertising and promotion expense, salaries and travelling costs of the sales and marketing staff and delivery costs. Selling and distribution costs represented approximately 20.2%, 33.9% and 16.8% of revenue for the Year 2011, the Year 2010 (as restated) and the Year 2009 (as restated), respectively.

Excluding the selling and distribution costs that was attributed to the Ausnutria Hyproca Group of approximately RMB10.8 million, selling and distribution costs of the Ausnutria Group for the Year 2011 decreased by approximately 33.2% when compared with the Year 2010. The decrease was mainly a result of the change in advertising strategy of the Group so that more emphasis were placed in regional promotion and marketing activities by means of holding exhibitions and local seminars provided to parents in the Year 2011 instead of launching the more costly television advertising activities in the Year 2010. The management believes that such strategy is more effective and can further improve the Group's communication with end customers and enable the Group to better understand their needs and further improve the services to the customers.

Selling and distribution costs of the Ausnutria Group for the Year 2010 increased by approximately 89.8% when compared with the Year 2009. In the Year 2010, the Group has launched a series of television advertising program in China Central Television and Hunan Television so as to promote brand recognition and reputation. Advertising and promotion expenses increased by 104.1% in the Year 2010 when compared with the Year 2009.

Administrative expenses

An analysis of the administrative expenses is as follows:

	2011 RMB'M	2010 RMB'M (As previously reported*)	2009 RMB'M (As previously reported*)
Ausnutria Group	40.6	21.6	10.6
Ausnutria Hyproca Group	3.8	–	–
	44.4	21.6	10.6

* No restatement arising from the Adjustments is required to be done

Administrative expenses mainly comprised of staff costs, travelling expenses, auditors' remuneration, professional fees, depreciation and research and development costs.

In addition to consolidation of the administration expenses of the Ausnutria Hyproca Group, the increase in administrative expenses in the Year 2011 as compared with the Year 2010 was mainly due to the increase in research and development costs by approximately RMB11.0 million, the increase in depreciation on leasehold improvements in relation of the office premises of Ausnutria China by approximately RMB1 million, the increase in auditors' remuneration as a result of the Unresolved Issues and the general increase in staff costs.

As set out in the Prospectus, it has always been the Group's strategy to invest on research and development by building a stronger and larger team and by enhancing our technological capability. During the year, the Group has commenced the clinical trial testing of the Group's first goat milk based paediatric milk formula with the Medical School of Beijing University and the other research and development efforts which has resulted in the launch of a number of new products, including but not limited to, the Puredo Series and the Hyproca 1897 Series, in 2012 and 2013, respectively. The Group's research and development costs increased significantly when compared with 2010.

The increase in administrative expenses in the Year 2010 by approximately 104.3% as compared with the Year 2009 was mainly due to the increase in management staff to cope with the business development and an increase in administrative expenses following the successful listing of the Shares in October 2009.

Other expenses

An analysis of the other expenses is as follows:

	2011 RMB'M	2010 RMB'M (As previously reported*)	2009 RMB'M (As previously reported*)
Ausnutria Group	17.5	20.4	–
Ausnutria Hyproca Group	2.0	–	–
	19.5	20.4	–

* No restatement arising from the Adjustments is required to be done

The other expenses of the Group for the Year 2011 mainly represented exchange losses of approximately RMB9.5 million (Year 2010: approximately RMB15.4 million from the translation of Hong Kong dollars to RMB; Year 2009: Nil) arising from the translation of bank deposits that were denominated in Euro and Hong Kong dollars to RMB and the transaction costs in relation to the Subscription and the Acquisition totaling of approximately RMB7.3 million (Year 2010: Nil; Year 2009: Nil) in the Year 2011.

Other expenses of the Ausnutria Group for the Year 2010 also included a write-off of trade receivables of approximately RMB5.0 million (Year 2011: Nil; Year 2009: Nil).

Finance costs

An analysis of the finance costs is as follows:

	2011 RMB'M	2010 RMB'M (As previously reported*)	2009 RMB'M (As previously reported*)
Ausnutria Group	–	1.4	4.2
Ausnutria Hyproca Group	1.4	–	–
	1.4	1.4	4.2

* No restatement arising from the Adjustments is required to be done

Management Discussion and Analysis

The finance costs for the Year 2011 amounted to approximately RMB1.4 million, representing the interest on bank and other borrowings that were attributable to the Ausnutria Hyproca Group.

The finance costs for the Year 2009 and the Year 2010 of approximately RMB4.2 million and RMB1.4 million, respectively, represented interest on a bank loan of RMB350 million from China Construction Bank that was fully repaid on 22 January 2010. The Ausnutria Group did not have any bank borrowings for the Year 2011.

Share of profits/(losses) of associates

On 3 July 2011, the Group completed the Subscription for approximately 19.44% of the enlarged equity interests in Ausnutria Hyproca. The share of profit of an associate by the Ausnutria Group represented (i) the Group's share of operating profit of the Ausnutria Hyproca Group amounting to approximately RMB4.8 million for the period from 3 July 2011 (the date of completion of the Subscription) to 17 October 2011 (the date when Ausnutria Hyproca became an indirect non-wholly-owned subsidiary of the Company) and; (ii) the share of the operating profits of the associates of Ausnutria China (the "**Trading Associates**") that were established in the PRC in 2010 for the purpose of expanding the sales of respective local markets that were not yet well covered by the distributors in the PRC of approximately RMB0.2 million for the Year 2011 (Year 2010: loss of approximately RMB0.1 million; Year 2009: Nil).

As set out in the announcement of the Company dated 18 August 2013, the Group noted that the operation of the Trading Associates did not achieve the original purpose as mentioned above. As of the date of this report, all the Trading Associates were either disposed of, deregistered or in the course of deregistration. There has been no significant gain or loss arising from the disposal and/or deregistration of the Trading Associates.

Income tax expenses

The profits generated by the Group were mainly derived from operations in the PRC and the Netherlands. Under the PRC income tax laws, enterprises are subject to corporate income tax (the "**CIT**") at a rate of 25%. Ausnutria China was designated as a High-tech Enterprise in 2010 and was granted a preferential CIT tax rate of 15% for the three years ended 31 December 2012. Further, the CIT rate of Ausnutria China for the Year 2010 and Year 2009 was 12.5% as Ausnutria China was entitled to a 50% CIT reduction holiday during those two years. 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 EURO 200,000 taxable profits and 25% for the taxable profits exceeding EURO 200,000. As at the date of this report, Ausnutria China is in the process of renewing its High-tech Enterprise qualification, upon which Ausnutria China will continue to entitle to the preferential CIT tax rate of 15%.

An analysis of the income tax expenses and the effective income tax rate is as follows:

	2011 RMB'M	2010 RMB'M (Restated)	2009 RMB'M (Restated)
Income tax expenses:			
– Ausnutria Group:			
Current – Hong Kong	–	–	0.4
Current – Mainland China	15.9	10.9	25.9
Deferred income tax	1.2	(4.0)	–
	17.1	6.9	26.3
– Ausnutria Hyproca Group:			
Current – Netherlands	3.5	–	–
Current – Mainland China	0.4		
Deferred income tax	0.5	–	–
	4.4	–	–
	21.5	6.9	26.3
Effective income tax rate:			
– Ausnutria Group	30.3	10.3	15.6
– Ausnutria Hyproca Group	15.7	–	–
	29.8	10.3	15.6

Most of the profits generated by the Ausnutria Group for the Year 2011, the Year 2010 (as restated) and the Year 2009 (as restated) were derived by Ausnutria China. As set out in note 2.5 to the financial statements to this report, the overstatement of profit before tax for the Year 2010 and the Year 2009 amounted to approximately RMB54.4 million and approximately RMB39.9 million, respectively. Except for the Year 2010 where there was a tax credit received of approximately RMB5.7 million to reduce the effective tax rate of the Year 2010 by approximately 8.2% points, the difference in the effective tax rate when compared with the applicable tax rate of Ausnutria China for the respective years (as set out above) was primarily due to the overpayment of CIT in the Year 2011, the Year 2010 and the Year 2009 arising from the Unresolved Issues, which may not be recoverable.

Besides, the provision of a withholding tax of approximately RMB6.2 million (Year 2010: Nil; 2009: Nil) which was calculated at 10% on the distributable profits of Ausnutria China also contributed to the increase in the effective income tax rate of the Ausnutria Group for the Year 2011 by approximately 11.0% points.

Management Discussion and Analysis

The effective income tax rate of the Ausnutria Hyproca Group (excluding the share of profit when the Ausnutria Hyproca Group was accounted for as an associate of the Group of approximately RMB4.8 million, the gain on remeasurement of the approximately 19.44% of the enlarged equity interests of approximately RMB14.1 million and those tax losses attributable to Ausnutria Dutch that were not recognised of approximately RMB2.0 million) of approximately 25.6% was in line with the standard CIT rate in the Netherlands.

Analysis on Consolidated Statements of Financial Position

Non-current assets

As at 31 December 2011, the total non-current assets of the Group amounted to approximately RMB392.6 million (31 December 2010: RMB72.0 million; 31 December 2009: RMB29.6 million), mainly comprised of property, plant and equipment of approximately RMB251.6 million (31 December 2010: RMB38.2 million; 31 December 2009: RMB26.9 million), goodwill arising from the Acquisition of approximately RMB82.9 million (31 December 2010 and 2009: Nil), other intangible assets of approximately RMB31.3 million (31 December 2010: RMB1.9 million; 31 December 2009: RMB0.3 million) and deferred tax assets of approximately RMB22.9 million (31 December 2010: RMB4.0 million; 31 December 2009: Nil).

The significant increase in the non-current assets of the Group as at 31 December 2011 when compared with the balances as at 31 December 2010 and 2009 was mainly due to the Acquisition. As set out in note 34 to the financial statements in this report, the fair value of the identifiable assets recognised on the Acquisition that were classified as non-current assets amounted to approximately RMB330.1 million, comprising property, plant and equipment, goodwill arising from the Acquisition, other intangible assets and deferred tax assets of approximately RMB199.8 million, RMB92.9 million, RMB23.3 million, RMB14.1 million, respectively.

The property, plant and equipment of the Ausnutria Hyproca Group of approximately of RMB187.9 million as at 31 December 2011 mainly represented the fair values of the Ausnutria Hyproca Group's land and buildings and production facilities of the three factories located in the Netherlands as at the completion date of the Acquisition.

The other intangible assets of the Ausnutria Hyproca Group of approximately RMB21.1 million as at 31 December 2011 mainly represented the fair value less amortisation of the Ausnutria Hyproca Group's milk collection rights with farmers for the supply of cow and goat milk in the Netherlands.

Excluding the assets of the Ausnutria Hyproca Group consolidated as a result of the Acquisition, the total non-current asset position of the Group as at 31 December 2011 remained fairly stable when compared with 31 December 2010.

The increase in the total non-current assets of the Group as at 31 December 2010 by approximately RMB42.4 million to approximately RMB72.0 million when compared with 31 December 2009 was mainly due to the purchase of two office premises in Changsha city, Hunan province, the PRC, at an aggregate consideration of approximately RMB23.1 million (the "**Office Premises**") and additions of property, plant and equipment of approximately RMB14.2 million during the Year 2010 after offsetting the depreciation charged for the Year 2010 of RMB3.0 million (Year 2009: RMB2.3 million). Further details regarding the above purchase of Office Premises are set out in the announcement of the Company dated 9 December 2010.

Current assets

As at 31 December 2011, the total current assets of the Group amounted to approximately RMB1,144.9 million (31 December 2010 (as restated): RMB1,131.6 million; 31 December 2009 (as restated): RMB1,626.5 million), mainly comprised inventories of approximately RMB261.6 million (31 December 2010 (as restated): RMB126.3 million; 31 December 2009 (as restated): RMB83.1 million), trade receivables of approximately RMB119.8 million (31 December 2010 (as restated): RMB27.6 million; 31 December 2009 (as restated): RMB8.7 million), bills receivable of approximately RMB58.0 million (2010: RMB31.4 million, 2009: Nil), held-to-maturity investments of RMB200.0 million (31 December 2010: RMB200.0 million; 31 December 2009: Nil), time deposits with banks in the PRC of RMB110.0 million (2010 and 2009: Nil) and cash and cash equivalents of approximately RMB342.2 million (31 December 2010: RMB639.0 million; 31 December 2009: RMB1,465.9 million).

Inventories

The significant increase in inventories as at 31 December 2011 was mainly attributable to (i) the inventories of the Ausnutria Hyproca Group amounting to approximately RMB96.4 million as at 31 December 2011 (31 December 2010 and 2009 (as restated): Nil); and (ii) the lower than expected sales of the Ausnutria Group particularly in the fourth quarter of 2011.

Excluding the impact of the Ausnutria Hyproca Group, the inventory turnover days of the Group as at 31 December 2011 was approximately 238 days (31 December 2010 (as restated): approximately 153 days; 31 December 2009 (as restated): approximately 107 days).

The Ausnutria Group normally require to place its purchase orders with suppliers three to six months in advance of delivery. As a result of the lower than expected revenue for the Year 2011, the inventories as at 31 December 2011 and hence the inventory turnover days increased when compared with 31 December 2010 and 2009 (as restated).

The inventory turnover days of the Ausnutria Hyproca Group as at 31 December 2011 was approximately 39 days.

Trade and bills receivables

The significant increase in trade and bills receivables as at 31 December 2011 was mainly attributable to (i) the trade receivables of the Ausnutria Hyproca Group amounting to approximately RMB97.5 million as at 31 December 2011 (31 December 2010 and 2009: Nil); and (ii) the increase in credit limit granted to the customers of Ausnutria China during the Year 2011.

Excluding the impact of the Ausnutria Hyproca Group, the trade receivable turnover days as at 31 December 2011 was approximately 23 days (31 December 2010 (as restated): approximately 13 days; 31 December 2009 (as restated): approximately 5 days).

In view of the increasing market competition of the paediatric nutrition products in the PRC, Ausnutria China has increased the credit limit granted to its distributors during the Year 2011 with an aim to incentivise and support the sales and promotion of the Group's products by the distributors. Trade receivables as at 31 December 2011 and hence the trade receivable turnover days increased when compared with those restated comparatives as at 31 December 2010 and 2009 (as restated).

The trade receivable turnover days of the Ausnutria Hyproca Group for as at 31 December 2011 was approximately 17 days.

Held-to-maturity investments

Please refer to the disclosures under note (i) of the "other income and gains" section above.

Time deposits and cash and cash equivalents

The net proceeds from the IPO in October 2009 amounted to approximately HK$823.1 million (after deducting underwriting commissions and related expenses) (the "**Net IPO Proceeds**"). As at 31 December 2011, the Group's cash and bank balances and time deposits amounted to approximately RMB452.2 million (31 December 2010: approximately RMB639.0 million; 31 December 2009: approximately RMB1,465.9 million) of which approximately HK$250.9 million (31 December 2010: approximately HK$543.9 million; 31 December 2009: approximately HK$823.1 million) represented the unutilised portion of the proceeds from the IPO.

For details regarding the changes in the above, please refer to the "Analysis on Consolidated Statement of Cash Flows" section of this report.

Current liabilities

As at 31 December 2011, the total current liabilities of the Group amounted to approximately RMB441.6 million (31 December 2010 (as restated): approximately RMB158.1 million; 31 December 2009 (as restated): approximately RMB615.4 million), mainly comprised trade payables of approximately RMB84.3 million (31 December 2010: RMB8.8 million; 31 December 2009: RMB25.4 million), other payables and accruals of approximately RMB259.5 million (31 December 2010 (as restated): approximately RMB149.3 million; 31 December 2009 (as restated): approximately RMB233.5 million) and interest-bearing bank loans and other borrowings of approximately RMB91.4 million (31 December 2010: Nil; 31 December 2009: RMB350.0 million).

Trade payables

The significant increase in trade payables of the Group as at 31 December 2011 was mainly attributable to the trade payables of the Ausnutria Hyproca Group amounting to approximately RMB63.0 million as at 31 December 2011 (31 December 2010 and 2009: Nil).

Excluding the impact of the Ausnutria Hyproca Group, the trade payable turnover days of the Group as at 31 December 2011 was approximately 35 days (31 December 2010: approximately 13 days, 31 December 2009: approximately 33 days). The decrease in the trade payable turnover days as at 31 December 2010 was mainly due to the increase in prepayments (therefore decreasing the amount of outstanding trade payable) to the suppliers after the Company's listing in October 2009 in order to enjoy a better pricing terms granted by the suppliers. During the Year 2011, the Ausnutria Group has diversified its milk powder supply sources from Australia to other countries. The average credit terms granted by these new suppliers were comparatively longer and hence the trade payable turnover days increased when compared with the Year 2010.

The trade payable turnover days of the Ausnutria Hyproca Group as at 31 December 2011 was approximately 26 days.

Other payables and accruals

Other payables and accruals mainly represented advances and deposits from customers of approximately RMB151.4 million (31 December 2010 (as restated): RMB124.2 million; 31 December 2009 (as restated): RMB120.7 million), deferred income of RMB39.4 million (31 December 2010 and 2009: Nil), accrued salaries and welfare of approximately RMB19.5 million (31 December 2010: RMB7.9 million, 2009: RMB4.1 million), and accrued professional fees and marketing expenses and travelling expenses of the sales and marketing staff.

In the year 2011 and before, Ausnutria China evaluated the performance of its distributors partly based on the amount of funds received from its distributors to be determined on an annual basis. In order to meet the annual target set out between Ausnutria China and its respective distributors, some of the distributors would advance cash to Ausnutria China in order to meet their target particularly near the year end period so as to enjoy bigger sales target incentives and/or greater marketing support from Ausnutria China in the following year. The orders placed by the distributors and the actual physical delivery of the products to the distributors would depend on their then inventory level and the expected upcoming sales of respective distributors from time to time. As a result of the relatively lower amount of revenue being recognised in 2011 when compared with the amount of funds received, the amount of advances from distributors (i.e. customers) increased when compared with 2010 (as restated) and 2009 (as restated).

In the Year 2011, the Group launched a customer loyalty program in the PRC which allows its customers to earn points when they purchase products of the Group. The points can then be redeemed for free products, subject to a minimum number of points being obtained. The consideration received or receivable from the products sold is allocated between the points earned by the customer loyalty program members and the other components of the sales transactions. The amount allocated to the points earned by the customer loyalty program members is deferred until the points are redeemed when the Group fulfils its obligations to supply products or when the points expire. The amount of income deferred as a result of the customer loyalty program to customers and the sales target incentives to distributors in the form of goods as at 31 December 2011 amounted to a total of approximately RMB39.4 million (31 December 2010 and 2009: Nil).

The increase in accrued salaries and welfare was mainly attributable to the Ausnutria Hyproca Group which accounted for approximately RMB11.7 million as at 31 December 2011 (31 December 2010 and 2009: Nil).

Interest-bearing bank loans and other borrowings

The interest-bearing bank loans and other borrowings as at 31 December 2011 were all attributed to the Ausnutria Hyproca Group for the financing of its daily working capital and capital expenditures.

The interest-bearing bank loans and other borrowings as at 31 December 2009 represented a bank loan of RMB350 million (the "**CCB Bank Loan**") from the China Construction Bank that was drawn down on 31 December 2009 and fully repaid on 22 January 2010.

Non-current liabilities

As at 31 December 2011, the total non-current liabilities of the Group amounted to approximately RMB85.3 million (31 December 2010 and 2009: Nil), mainly comprised interest-bearing bank loans and other borrowings of approximately RMB42.7 million (31 December 2010 and 2009: Nil), accruals for defined benefit plan of approximately RMB13.2 million (31 December 2010 and 2009: Nil) and deferred tax liabilities of approximately RMB28.9 million (31 December 2010 and 2009: Nil).

Interest-bearing bank loans and other borrowings

The interest-bearing bank loans and other borrowings as at 31 December 2011 were all attributed to the Ausnutria Hyproca Group for the financing of its daily working capital and capital expenditures.

Accruals for defined benefit plan

The Ausnutria Hyproca Group operates unfunded defined benefit plans for its qualified employees. Under the plans, the qualified employees are entitled to retirement benefits at rates varying at certain percentage of their final salaries on attainment of a retirement age of 65. The accruals for defined benefit plans of approximately RMB13.2 million (31 December 2010 and 2009: Nil) were determined based on the actuarial valuations as at 31 December 2011 carried out by independent professional valuers using the projected unit credit actuarial valuation method.

No defined benefit plan was operated by the Ausnutria Group.

Deferred tax liabilities

The balance represented (i) the tax effect arising from the timing differences on the depreciation and amortisation charged between accounting and tax reporting purpose that was attributed to the Ausnutria Hyproca Group as at 31 December 2011 and the fair value adjustment arising from the Acquisition of a total of approximately RMB22.7 million (31 December 2010 and 2009: Nil); and (ii) the withholding tax amounting to approximately RMB6.2 million as at 31 December 2011 (31 December 2010 and 2009: Nil) calculated at 10% on the distributable profits of Ausnutria China.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007.

The Group did not have any non-current liabilities as at 31 December 2009 and 2010.

Non-controlling interests

The balance represented the 49% equity interests in Ausnutria Hyproca owned by DDI and the approximately 8.4% equity interests in Hyproca Lyempf that was owned by an independent third party.

Subsequent to the end of the reporting period, on 19 October 2012, the Ausnutria Hyproca Group acquired the remaining approximately 8.4% equity interests in Hyproca Lyempf at a consideration of EURO 2.8 million (equivalent to approximately RMB22.8 million).

Analysis on Consolidated Statement of Cash Flows

An extract of the cash flows information of the Group for the Year 2011, the Year 2010 and the Year 2009 is as follows:

	2011 RMB'M	2010 RMB'M	2009 RMB'M
Net cash flows from/(used in) operating activities	127.4	(115.9)	201.1
Net cash flows from/(used in) investing activities	(253.0)	(232.6)	2.8
Net cash flows from/(used in) financing activities	(168.5)	(476.7)	1,184.5
Net increase/(decrease) in cash and cash equivalents	(294.1)	(825.2)	1,388.4

Net cash flows from/(used in) operating activities

Net cash flows from operating activities of the Group for the Year 2011 was approximately RMB127.4 million, while the profit before tax for that year was approximately RMB71.9 million. The difference of approximately RMB55.5 million was mainly attributable to the increase in other payables and accruals of approximately RMB62.7 million as a result of the increase in advances and deposits from customers and the decrease in prepayments, deposits and other receivables of approximately RMB71.9 million (as restated) which was offset by the increase in inventories and trade and bills receivables of approximately RMB39.7 million (as restated) and RMB41.1million (as restated), respectively.

In the Year 2010, the Group has launched a series of television advertising program so as to promote brand recognition and reputation. Part of the advertising program for advertising fees paid in 2010 was launched in 2011. The decrease in prepayments, deposits and other receivables when compared with 31 December 2010 was mainly attributable to the decrease in prepaid advertising fees and the prepayments made to suppliers as at 31 December 2011.

The Ausnutria Group normally placed its orders with suppliers three to six months in advance of delivery. As a result of the lower than expected revenue in the Year 2011, the inventories as at 31 December 2011 increased when compared with the Year 2010 (as restated). Besides, as a result of the increasing market competition of the paediatric nutrition products in the PRC, Ausnutria China has increased its credit limit granted to its distributors during the Year 2011 with an aim to incentivise and to support the sales and promotion of the Group's products. Trade and bills receivables as at 31 December 2011 increased accordingly.

Net cash flows used in operating activities of the Group for the Year 2010 was approximately RMB115.9 million, while the profit before tax for that year was RMB66.8 million (as restated). The difference of approximately RMB182.7 million was mainly attributable to the increase in inventories of approximately RMB43.3 million (as restated), the increase in trade and bills receivables of approximately RMB50.3 million (as restated), the increase in prepayments to suppliers of approximately RMB19.3 million and the CIT paid in the Year 2010 of approximately RMB36.6 million.

The Group has experienced a continuous growth in revenue since 2006. The increase in inventories and trade receivables as at 31 December 2010 (as restated) when compared with the Year 2009 (as restated) was for the same reasons as set out in the Year 2011 above.

As a result of the improved cash flow position of the Group since the IPO in October 2009, the Group has increased its prepayments to suppliers in order to enjoy a better pricing terms granted by the suppliers.

Net cash flows from operating activities of the Group for the Year 2009 was approximately RMB201.1 million, while the profit before tax for that year was approximately RMB168.5 million (as restated). The difference of approximately RMB32.6 million was mainly attributable to an increase in other payables and accruals of approximately RMB102.0 million (as restated) which was offset by the increase in prepayments, deposits and other receivables of approximately RMB40.5 million (as restated) and the CIT paid in the Year 2009 of approximately RMB26.9 million.

The increase in other payables and accruals was mainly attributable to the increase in advances and deposits from customers of approximately RMB73.1 million (as restated) and RMB7.3 million (as restated), respectively. During the Year 2009, the Group generally required its customers to make payments in advance of goods delivery. The increase in advances and deposits from customers was in line with the increase in revenue.

Net cash flows from/(used in) investing activities

The net cash flows used in investing activities of the Group for the Year 2011 mainly represented the considerations paid by the Group for the Subscription and the Acquisition amounting to a total of approximately RMB128.8 million and the investing of part of the Group's bank deposits in one-year time deposits with banks in the PRC amounting to RMB110.0 million (Year 2010 and Year 2009: Nil).

The net cash flows used in investing activities of the Group for the Year 2010 mainly represented the investment in the Entrusted Funds and the purchase of the Office Premises.

There were no significant investing activities conducted by the Group during the Year 2009.

Net cash flows from/(used in) financing activities

During the Year 2011, the Company repurchased 69,157,000 Shares at prices ranging from HK$1.24 to HK$2.85 for a total consideration of approximately HK$159.3 million (equivalent to approximately RMB134.5 million). The net cash flows used in financing activities of the Group for the Year 2011 mainly represented the above-mentioned repurchases of Shares, the payment of 2010 final dividend by the Company of approximately RMB24.8 million and the net repayments of bank loans and other borrowings that were attributable to the Ausnutria Hyproca Group of approximately RMB9.1 million.

The net cash flows used in financing activities of the Group for the Year 2010 represented the repayment of the CCB Bank Loan of RMB350 million, the payment of 2009 final dividend by the Company of approximately RMB53.3 million and the repayments of the amounts due to two of its founding Shareholders, namely All Harmony International Limited and Silver Castle International Limited, of a total of approximately RMB73.3 million that were advanced to the Group in 2009 (the "**Related Party Advances**").

The net cash flows from financing activities of the Group for the Year 2009 mainly represented the Net IPO Proceeds (as defined herein below) of approximately HK$823.1 million, the drawdown of the CCB Bank Loan of RMB350 million and the Related Party Advances, which were offset by the payment of the special dividend in 2009 of RMB30 million.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

Save for the Acquisition and the Subscription as detailed above and in note 34 to the financial statements in this report, there were no material investments and acquisitions and disposals of subsidiaries during the years ended 31 December 2011, 2010 and 2009.

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:

	2011	2010	2009
Cash and cash equivalents (RMB'M)	342.2	639.0	1,465.9
Time deposits (RMB'M)	110.0	–	–
Total bank loans and other borrowings (RMB'M) (1)	134.1	–	350.0
Total assets (RMB'M)	1,537.5	1,203.6*	1,656.1*
Gearing ratio (%) (2)	8.7	n/a*	21.1*

* Restated

Notes:

(1) All the Group's bank loans and other borrowings as at 31 December 2011 are attributed to the Ausnutria Hyproca Group and are denominated in EURO.

(2) Calculated as a percentage of total bank loans and other borrowings over total assets. For additional information, if calculated based on the net debt divided by the total equity plus the net debt, the gearing ratio at 31 December 2011 was 2.7%. The Group did not have any net debt as at 31 December 2010 and 2009. Net debt is calculated as the sum of an interest-bearing bank loans and other borrowings, trade payables and other payables and accruals, less time deposits and cash and cash equivalents.

As at 31 December 2011, the Ausnutria Hyproca Group had pledged its land and buildings, plant and machineries, inventories and trade receivables with a total carrying value of EURO 41.5 million (equivalent to approximately RMB338.9 million) (31 December 2010 and 2009: Nil).

FOREIGN EXCHANGE RISK

The operations of the Group are mainly carried out in the PRC and the Netherlands. During the Year 2011, revenue, cost of sales and operating expenses of the Group are mainly denominated in Renminbi ("**RMB**"), Hong Kong dollars ("**HK$**"), United States dollars ("**US$**") or EURO and RMB is the Group's presentation currency. The Group is exposed to potential foreign exchange risk as a result of fluctuation of HK$, US$ or EURO against RMB. The Group did not enter into any arrangements for the purpose of hedging against the potential foreign exchange risks during the year under review.

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 Ausnutria Hyproca 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 Ausnutria Hyproca Group entered into interest rate swap contracts with bank, effective from 1 October 2007, of a notional amount of EURO 2.5 million with 3-month floating EURO Interbank Offered Rate being swapped to a fixed interest rate of 4.45% per annum. The aforesaid derivative financial instrument will expire in October 2017. The above interest rate swap contracts are revalued at their fair value as at 31 December 2011 (31 December 2010 and 2009: Nil).

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 2011, the Group, as lessee, had total future minimum lease payments under non-cancellable operating leases amounting to approximately RMB389,000 (31 December 2010: RMB402,000; 31 December 2009: RMB420,000).

As at 31 December 2011, the Group had contracted, but not provided for, capital commitments in respect of leasehold improvements and the purchase of plant and machineries of a total of RMB8,239,000 (31 December 2010 and 2009: Nil).

CONTINGENT LIABILITIES

As at 31 December 2011, 2010 and 2009, the Group did not have any significant contingent liabilities.

USE OF PROCEEDS

The Shares were listed on the Main Board of the Stock Exchange on 8 October 2009 with net proceeds from the global offering of the Shares of approximately HK$823.1 million (after deducting underwriting commissions and related expenses) (the "**Net IPO Proceeds**").

The use of the Net IPO Proceeds from the global offering up to 31 December 2011 and the date of this report was as follows:

	As stated in the Prospectus HK$'000	Utilised HK$'000	Balance as at 31 December 2011 HK$'000	Utilised subsequent to 31 December 2011 HK$'000	Balance as at date of this report HK$'000
Invest in upstream operations	246,930	(164,416)	82,514	–	82,514
Expand the Group's distribution network and brand building	246,930	(219,591)	27,339	(27,339)	–
Enhance the Group's research and development efforts	82,310	(22,018)	60,292	(19,340)	40,952
Introduce new series of organic paediatric nutrition products	82,310	(61,346)	20,964	–	20,964
Establish new production lines and warehouse	82,310	(22,509)	59,801	(59,801)	–
General working capital	82,310	(82,310)	–	–	–
	823,100	(572,190)	250,910	(106,480)	144,430

The unused Net IPO Proceeds balance was deposited in reputable financial institutions in the PRC.

The Directors intend to apply the unused Net IPO Proceeds in the manner as set out in the announcement of the Company dated 8 September 2010.

HUMAN RESOURCES

Number of full-time employees	Mainland China	Hong Kong	The Netherlands	Total
31 December 2011				
Ausnutria Group	555	2	–	557
Ausnutria Hyproca Group	111	–	155	266
	666	2	155	823
31 December 2010				
Ausnutria Group	510	2	–	512
Ausnutria Hyproca Group	N/A	N/A	N/A	N/A
	510	2	–	512
31 December 2009				
Ausnutria Group	305	2	–	307
Ausnutria Hyproca Group	N/A	N/A	N/A	N/A
	305	2	–	307

For the Year 2011, total employee costs, including directors' emoluments, amounted to approximately RMB57.2 million (Year 2010: approximately RMB31.1 million; Year 2009: approximately RMB14.2 million), of which approximately RMB17.3 million (Year 2010 and Year 2009: Nil) were attributed to the Ausnutria Hyproca Group. 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.

SHARE OPTION SCHEME

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

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

AUDIT COMMITTEE

The Company has an audit committee, which was established with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules. The primary duties of the audit committee are to provide our Board with an independent review of the effectiveness of the financial reporting process, internal control and risk management of the Group, to oversee the audit process and to perform other duties and responsibilities stated in the written terms of reference. The audit committee comprises three independent non-executive Directors, namely, Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong (Chairman). The Company's and the Group's financial statements for the year ended 31 December 2011 and this report have been reviewed by the audit committee.

Following the Unresolved Issues, the SRC and the audit committee were concerned with any weaknesses in the internal control systems of the Company and Ausnutria China which might have given rise to the Unresolved Issues. In view of this, PKF was appointed to review the internal control systems of the Company and Ausnutria China which are relevant to and the weaknesses of which might have given rise to the Unresolved Issues, particularly the sales cycle of Ausnutria China. PKF has also addressed the internal control deficiencies raised by EY and covered in the PwC Report. The findings of the Internal Control Review conducted by PKF and the rectifications implemented by the Group are disclosed under the section headed "Internal Control Review by PKF" of this report.

In view of the results of the Internal Control Review, the audit committee, the SRC and the Board consider that the material internal control weaknesses that might have given rise to the Unresolved Issues raised by EY and covered in the PwC Report have been rectified. The audit committee, the SRC and the Board are committed to (i) supervising the management of the Company and Ausnutria China to complete the implementation of PKF's recommendations to rectify the outstanding medium risk internal control weaknesses, and (ii) maintaining sound and effective internal controls to safeguard shareholders' investment and the Group's assets. The Group is in the process of engaging PKF to conduct a review of the other internal control components of the Group not yet covered by the Internal Control Review. The Company will make further announcement when this further internal control review is completed.

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Yan Weibin (appointed as Chairman on 7/6/2013)
Mr. Bartle van der Meer (appointed as Executive Director and Chief Executive Officer on 7/6/2013)
Ms. Ng Siu Hung

Non-executive Director
Mr. Dai Li (appointed on 7/6/2013)

Independent Non-executive Directors
Mr. Qiu Weifa
Mr. Jason Wan
Mr. Chan Yuk Tong

COMPANY SECRETARY
Mr. Wong Wei Hua Derek (appointed as Joint Company Secretary on 26/9/2011 and redesignated as Company Secretary on 3/12/2012)

AUTHORISED REPRESENTATIVES
Ms. Ng Siu Hung
Mr. Wong Wei Hua Derek (appointed on 26/9/2011)

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

REMUNERATION COMMITTEE
Mr. Chan Yuk Tong *(Chairman)*
Mr. Yan Weibin (appointed on 7/6/2013)
Mr. Qiu Weifa
Mr. Jason Wan

NOMINATION COMMITTEE
Mr. Yan Weibin *(Chairman)* (appointed on 7/6/2013)
Mr. Qiu Weifa
Mr. Jason Wan
Mr. Chan Yuk Tong

SPECIAL REVIEW COMMITTEE
(established on 29/3/2012)
Mr. Qiu Weifa
Mr. Chan Yuk Tong

AUDITORS
Ernst & Young
Certified Public Accountants

LEGAL ADVISER (As to Hong Kong law)
King & Wood Mallesons

COMPLIANCE ADVISER
Asian Capital (Corporate Finance) Limited

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

PRINCIPAL PLACES OF BUSINESS

In Mainland China
8th Floor, XinDaXin Building A
No. 168 Huangxing Middle Road
Changsha City, Hunan Province, the PRC

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

In the Netherlands
Burgemeester Falkenaweg 58-1 (8442LE), Heerenveen, the Netherlands

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

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

PRINCIPAL BANKERS
Bank of China, Hunan Province branch, Changsha
China Construction Bank, Huangxing Road branch, Changsha
ABN AMRO Bank N.V.

STOCK CODE
1717

COMPANY'S WEBSITE
www.ausnutria.com.hk

Directors' and Senior Management's Biographies

Biographical details of the Directors and the senior management of the Group are set out below:

DIRECTORS

Executive Directors

Mr. Yan Weibin ("**Mr. Yan**"), aged 47, was appointed as the executive Director on 8 June 2009 and was elected Chairman of the Board on 7 June 2013. Mr. Yan is a shareholder and director of Brave Leader Limited ("**Brave Leader**"), Silver Castle International Limited ("**Silver Castle**") and Ausnutria Holding Co Ltd ("**Ausnutria BVI**"), the substantial shareholders of the Company. He is also a director of a number of the Company's subsidiaries, including Ausnutria Dairy (China) Co., Ltd* ("**Ausnutria China**") and Ausnutria Hyproca B.V. ("**Ausnutria Hyproca**"). He joined the Group since the establishment of Ausnutria China in September 2003. Mr. Yan is primarily responsible for the overall corporate strategy, planning and business development of the Group. Mr. Yan graduated from Hunan University with a degree in Bachelor of Engineering and MBA. He was a director and the vice president of Hunan Ava Seed Co., Ltd*（湖南亞華種業股份有限公司）("**Hunan Ava Seed**"), a company whose shares are listed on the Shenzhen Stock Exchange, and the chief executive officer and director of Changsha Xin Da Xin Vilmorin Agri-Business Co., Ltd*（長沙新大新威邁農業有限公司）(formerly, Changsha Xin Da Xin Group Company*（長沙新大新集團有限公司）) ("**Changsha Xin Da Xin Group**"), an associate of the Company. Mr. Yan has been a director of Yuan Longping High-tech Agriculture Co., Ltd*（袁隆平農業高科技股份有限公司）("**Longping High-tech**"), a company whose shares are listed on the Shenzhen Stock Exchange, from 2004. He was Longping High-tech's chief executive officer from 2004 to April 2010, the vice chairman and the chief financial officer from April 2010 to December 2011, the chief executive officer and chief financial officer from December 2011 to June 2012 and has become the vice chairman since June 2012.

Mr. Bartle van der Meer ("**Mr. van der Meer**"), aged 67, was appointed as the executive Director and Chief Executive Officer on 7 June 2013. Mr. van der Meer is one of the founders of Ausnutria Hyproca. He indirectly held 49% equity interests in Ausnutria Hyproca through the shareholding in Dutch Dairy Investments B.V. ("**DDI**") and has been involved in the strategic management since the establishment of Ausnutria Hyproca in 1994. He has also been a member of the board of directors and chief executive officer of Ausnutria Hyproca since 2012. Mr. van der Meer is primarily responsible for the overall corporate strategy, planning and business development of the Group. He graduated with a business administration degree in the Netherlands with a major in banking in 1966. He worked for Rabobank, a multinational banking and financial services group in the Netherlands for more than 25 years. He is serving as the executive director of PMH Investments B.V., a private equity which owned 46.55% equity interests in DDI, and Vegelin Group B.V. since 1994. Mr. van der Meer has been the chairman of supervisory board of sc Heerenveen NV (a soccer club which plays in the premier division in the Netherlands) since 1998 to 2012, and a member of Foundation Accell Group (a company listed on Euronext Amsterdam (formerly known as Amsterdam Stock Exchange) since 1998.

Directors' and Senior Management's Biographies

Ms. Ng Siu Hung ("**Ms. Ng**"), aged 44, was appointed as the executive Director on 19 September 2009. Ms. Ng is primarily responsible for the Group's investor relations. She studied Applied English Language at Changsha University and graduated at The University of Westminster, the United Kingdom with a Master of Arts degree in Human Resource Management. She was the representative of a computer network company and then, a manager of a trading company for about 2 years. Ms. Ng has been a director of Hunan Yukai Real Estate Development Co., Ltd*（湖南宇凱房地產有限公司）since 2004. She is the officer of Public Relations of Hunan XinDaXin Co., Ltd*（湖南新大新股份有限公司）. Ms. Ng had been a joint company secretary of the Company from September 2009 to 3 December 2012.

Mr. Wu Yueshi ("**Mr. Wu**"), aged 55, was the executive Director and Chairman from 8 June 2009 to 7 June 2013. Mr. Wu is a shareholder and director of Brave Leader, Silver Castle and Ausnutria BVI, the substantial shareholders of the Company. He was also a director of a number of subsidiaries of the Company, including Ausnutria China from 8 June 2009 to 7 June 2013. Mr. Wu joined the Group at the establishment of Ausnutria China in September 2003. He was primarily responsible for the overall corporate strategy, planning and business development of the Group. Mr. Wu completed a Master of Business Administration program at the International College of Beijing University, and obtained the Executive Master of Business Administration degree from Fordham University. Prior to joining the Group, he was employed by the Labour Department of Hunan Province（湖南省勞動廳）, and was a director and the chief executive officer of Hunan Ava Seed. Mr. Wu is presently the chairman and a director of Changsha Xin Da Xin Group and also the vice chairman of the Chamber of Commerce and Industry (Hunan)*（湖南省工商業聯合會）. Mr. Wu has been the chairman and director of Longping High-tech since 2004. Mr. Wu resigned as executive Director and Chairman on 7 June 2013.

Mr. Chen Yuanrong ("**Mr. Chen**"), aged 54, was the executive Director and Chief Executive Officer from 8 June 2009 to 7 June 2013. Mr. Chen is a shareholder and director of All Harmony International Limited, the substantial shareholder of the Company. He was also a director of a number of subsidiaries of the Company, including Ausnutria China until 7 June 2013. Mr. Chen joined the Group in December 2003 as the director and chief executive officer of Ausnutria China. He was primarily responsible for the day-to-day management and operations of Ausnutria China. Prior to joining the Group, Mr. Chen was the senior management of a number of dairy related companies for many years. Mr. Chen has extensive experience in cattle breeding, management of cattle farm, production and marketing of dairy products and its business management. Mr. Chen resigned as executive Director and Chief Executive Officer on 7 June 2013.

Directors' and Senior Management's Biographies

Non-executive Director

Mr. Dai Li ("**Mr. Dai**"), aged 32, was appointed as the non-executive Director on 7 June 2013. Mr. Dai graduated from Beijing Institute of Technology with a bachelor degree in science in 2004. He obtained a master degree in international economics, banking and finance at Cardiff University in 2006. He was also awarded a Doctor of Philosophy Degree ("**PhD**") in economics in 2012. Mr. Dai worked in Ausnutria China as a researcher in 2011. His main duty is collecting and analysing information and data in relation to dairy industry. He worked as an assistant in Northland Bank Cooperation, London from March 2012 to October 2012. He then worked as a project manager and a senior researcher in a number of state-owned enterprises.

Independent Non-executive Directors

Mr. Qiu Weifa ("**Mr. Qiu**"), aged 68, was appointed as the independent non-executive Director on 19 September 2009. Mr. Qiu graduated from the Central University of Finance and Economics*（中央財政金融學院）and has senior economist qualifications*（高級經濟師）. Mr. Qiu was the vice general manager of the Bank of China (Singapore branch), the alternate general manager of the Bank of Guangdong province (Singapore branch) and the head of branch（行長）of the Bank of China (Hunan province branch). He has over 33 years of experience in the banking sector, holding management positions at various banking institutions. Mr. Qiu was appointed as a member of the Special Review Committee (the "**SRC**") to look into the Unresolved Issues raised by EY on 29 March 2012.

Mr. Jason Wan ("**Mr. Wan**"), formerly known as Wan Xiansheng, aged 50, was appointed as the independent non-executive Director on 19 September 2009. Mr. Wan completed a PhD at Deakin University, Australia in 1992. Prior to that, he graduated with a Bachelor of Science at Hunan Agricultural University in 1983 and a Master of Science in dairy science and processing at Northeast Agricultural University in 1986. Mr. Wan was a lecturer in the department of food science and technology at the Northeast Agricultural University from 1986 to 1988, and a visiting scientist at the Food Research Institute at the Department of Agriculture in Victoria, Australia in 1989. Mr. Wan was a post-doctoral researcher in the department of biochemistry at the University of Melbourne from 1992 to 1995, a senior research scientist at CSIRO Food Science Australia from 1995 to 2009 and a research professor in food microbiology and biotechnology at the Illinois Institute of Technology, USA since 2009. Mr. Wan has extensive knowledge and expertise in the areas of processing technologies for food safety, dairy processing and the functionality of various ingredients of dairy products. He has written many articles over the years on various subjects, including microbiology and biotechnology, and continues to develop his expertise in these subjects. Mr. Wan has also received numerous scholarships and research grants. Recently, he has gained research grants being a PhD scholarship relating to whey proteins and biological properties, as well as a major research grant for research relating to dairy processing.

Directors' and Senior Management's Biographies

Mr. Chan Yuk Tong ("**Mr. Chan**"), aged 51, was appointed as the independent non-executive Director on 19 September 2009. Mr. Chan graduated from the University of Newcastle in Australia with a bachelor's degree in Commerce, and obtained a master's degree in business administration from The Chinese University of Hong Kong. Mr. Chan is a practising fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Mr. Chan was an audit principal at Ernst & Young and a finance director and sales director at G2000 (Apparel) Limited. Mr. Chan has over 25 years of experience in auditing, accounting, managerial and financial consultation experience. His directorships of publicly listed companies are as follows:

Listed Company	**Role**	**Period**
Present engagements:		
Kam Hing International Holding Limited	Independent non-executive Director ("**INED**")	March 2004 to present
Sinopoly Battery Limited (formerly known as Thunder Sky Battery Limited)	INED	November 2006 to present
Global Sweeteners Holdings Limited	INED	June 2008 to present
China Motion Telecom International Limited	INED	November 2013 to present
Past engagements:		
Asia Cassava Resources Holdings Limited	Executive director	July 2008 to August 2010
Vitop Bioenergy Holdings Limited	Executive director	September 2005 to February 2008
	Non-executive director	February 2008 to May 2011
Xinhua Winshare Publishing And Media Co., Ltd. (formerly known as Sichuan Xinhua Winshare Chainstore Co., Ltd)	INED	April 2006 to July 2013
Daisho Microline Holdings Limited	INED	September 2004 to August 2013
BYD Electronic (International) Company Limited	INED	November 2007 to July 2013
Anhui Conch Cement Company Limited	INED	June 2006 to May 2012
Trauson Holdings Company Limited	INED	June 2010 to July 2013 (date of withdrawal of listing)
Great Wall Motor Company Limited	INED	May 2010 to November 2010

Mr. Chan was appointed as a member of the SRC of the Company to look into the Unresolved Issues raised by EY in the EY Letter on 29 March 2012.

Directors' and Senior Management's Biographies

SENIOR MANAGEMENT

Mr. Wong Wei Hua Derek ("**Mr. Wong**"), aged 41, is the Chief Financial Officer and company secretary of the Company. Mr. Wong has over 18 years of experience in auditing and financial and corporate management. Mr. Wong graduated from York University with a bachelor degree in accounting and a bachelor degree in mathematics. He is a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in July 2011, he was an audit manager with an international accounting firm, the financial controller of a manufacturing group of companies and the general manager of an investment company principally engaged in mining business in Indonesia. Mr. Wong joined the Group as Deputy Chief Financial Officer of the Company in July 2011 and was appointed as the Joint Company Secretary (later redesignated as Company Secretary on 3 December 2012) and Chief Financial Officer of the Company on 26 September 2011. Mr. Wong has also been appointed as the chief financial officer of Ausnutria China in April 2012.

Mr. Liu Yuehui ("**Mr. Liu**"), aged 50, was appointed as the executive director of Ausnutria China on 7 June 2013. He joined the Group shortly after the establishment of Ausnutria China on 26 December 2003. Mr. Liu studied dairy techniques at the Inner Mongolia Light Manufacturing School*（內蒙古輕工業學校）. Mr. Liu has hold management positions in various dairy factories and has over 10 years of experience in the industry. Mr. Liu was the assistant of the chief executive officer of Hunan Ava Nanshan Dairy Products Company Limited*（湖南亞華南山乳品營銷有限公司）("**Hunan Ava Nanshan Dairy**"). Mr. Liu is primarily responsible for recruitment, human resourcing, development and administrative functions of Ausnutria China since 2003.

Mr. Dai Zhiyong ("**Mr. Dai**"), aged 38, was appointed as the executive director of Ausnutria China on 7 June 2013. He joined the Group shortly after the establishment of Ausnutria China on 18 September 2003. Mr. Dai graduated from Xiang Tan University*（湘潭大學）with a degree in Bachelor of Chemistry. Mr. Dai held a management position in a dairy products company for a number of years and has over 10 years of experience in the industry. Mr Dai was employed by Hunan Ava Nanshan Dairy as the vice factory manager, the person in charge of the research and development department and was engaged in milk powder research and development works for Inner Mongolia Ya Ke Shi Ru Factory*（內蒙古牙克石乳品廠）. Mr. Dai is primarily responsible for managing the daily operations of the technical department of the Group and for ensuring the overall compliance status of the Group's new products and its development in the PRC.

Mr. Li Wei ("**Mr. Li**"), aged 36, is the production controller and the general manager of the production department of Ausnutria China. He joined the Group shortly after the establishment of Ausnutria China on 26 December 2003. Mr. Li graduated from Hunan Agriculture University*（湖南農業大學）with a degree in Bachelor of Food Technique. Prior to joining the Group, Mr. Li held management position at a dairy products company. Mr. Li has 12 years of experience in the dairy industry. He was employed by Hunan Ava Nanshan Dairy as the supervisor of the quality control centre, the external supervisor for quality control and the external vice department head. He has been the general manager of the production department of the Group since December 2003 and is primarily responsible for managing the quality, logistics and production at Ausnutria China.

Directors' and Senior Management's Biographies

Mr. Qu Zhishao ("**Mr. Qu**"), aged 36, is the vice-president and the general manager of the "Puredo" business unit of Ausnutria China. He joined the Group since the establishment of Ausnutria China and was the marketing supervisor, district manager, assistant to chief executive officer and sales officer, director of marketing and general manager of marketing department of the southern district. Mr. Qu holds a Bachelor degree of Arts from Xiang Tan University*（湘潭大學）and has been engaged in dairy advertising strategy, sales planning, and management in marketing and sales since 2001. He has 14 years' experience in the related industry.

Mr. Ids Jorna ("**Mr. Jorna**"), aged 62, was the chief executive officer of Ausnutria Hyproca. He is one of the founders of Ausnutria Hyproca and a shareholder of DDI. Mr. Jorna graduated from the Wageningen University and Research Centre in the Netherlands with a degree in Master of Animal Nutrition. Before the incorporation of Ausnutria Hyproca, Mr. Jorna has 19 years of experience in the dairy industry engaged in the areas of research & development, quality assurance and operations and has worked for several multinational companies in the Netherlands. Mr Jorna retired from the Group in 2012.

Mr. Ben Busser ("**Mr. Busser**"), aged 49, is the Managing Director of Hyproca Nutrition B.V. and Neolac Nutrition B.V, both of which are wholly-owned subsidiaries of Ausnutria Hyproca. He joined the Ausnutria Hyproca Group in 2008. Mr. Busser graduated from Deventer Agricultural College in the Netherlands with a bachelor of science in Tropical Animal Husbandry. Mr. Busser has more than 12 years of experience in the marketing and sales of dairy products (infant formulas) and has worked for several multinational dairy companies in the Netherlands. Mr. Busser is a shareholder of DDI.

Mr. Evert Schilstra ("**Mr. Schilstra**"), aged 54, is the chief operational officer of Ausnutria Hyproca. He joined Ausnutria Hyproca in 1996. Mr. Schilstra graduated from the Bolsward College in the Netherlands with a bachelor in Food Technology, specialised in the dairy industry. He has more than 31 years of experience in the dairy industry. Before joining Ausnutria Hyproca, he was engaged in the field of research and development, quality assurance, investment plans and operations and has worked for engineering, multinational and dairy companies in the Netherlands.

Mr. Alfred Haandrikman ("**Mr. Haandrikman**"), aged 56, is the manager of the research and development department in Ausnutria Hyproca. He joined Ausnutria Hyproca in November 2012. Mr. Haandrikman graduated with a doctorate degree in Molecular Biology from the Rijksuniversiteit Groningen, in the Netherlands. From 1994 to 2006, he worked as a senior scientist and research and development ("**R&D**") manager in Hercules European Research Centre, the Netherlands. From 2006 onwards, he was appointed as the global R&D director in Lipid Nutrition B.V. and IOI-Loders Croklaan group, a leading company in development of lipids for infant nutrition.

Mr. Arie Santinge ("**Mr. Santinge**"), aged 51, is the group financial controller and compliance officer of Ausnutria Hyproca. He joined Ausnutria Hyproca in October 2012. Mr. Santinge graduated from Koninklijk Nivra – Nijenrode Business University in the Netherlands in 1991 and holds a register accountant ("certified public auditor") degree. Before joining Ausnutria Hyproca, Mr. Santinge worked for 25 years for several auditing firms in the Netherlands.

Directors’ and Senior Management’s Biographies

Mr. Gerrit Cornelis Bijlsma (“**Mr. Bijlsma**”), aged 44, is the Managing Director of Lypack Leeuwarden B.V. (“**Lypack**”). Mr. Bijlsma joined Lypack in February 2007 as plant manager. He was responsible for the finance and sales before he was appointed as the Managing Director of Lypack. Mr. Bijlsma holds a degree in food technology and agro business management and is specialised in quality, operations and general management in the food industry. Before joining Lypack, Mr. Bijlsma worked in the Dutch bakery-industry as a quality and operations manager for over 10 years.

Mr. Robin-Jan de Nerée (“**Mr. de Nerée**”), aged 39, is the Managing Director of Hyproca Lypack B.V. and heads the global business in the private branded and contract packing activities. Mr. de Nerée joined the sales team as the marketing and sales manager of Hyproca Lypack B.V. since 2006 before he was appointed as the Managing Director. Mr. de Nerée graduated from Enschede University with a Bachelor of Science degree in Chemical and Engineering. Before joining Hyproca Lypack B.V., he was engaged in the product development of cosmetic products, and international sales of private label and contract filling in various industries across Europe and the United States.

Mr. Dai Lianyu (“**Mr. Dai**”), aged 45, was the chief financial officer and the vice-president of Ausnutria China. He joined the Group on 27 December 2005. Mr. Dai graduated from Hunan Finance and Economy College*（湖南財經學院）and is a chartered accountant. Mr. Dai was employed at Changsha Xin Da Xin Group as the vice manager in the auditing department. He has been the chief financial officer of Ausnutria China from February 2006 to December 2010, the vice-president of Ausnutria China from January 2011 to June 2013. Mr. Dai left the Group in June 2013.

Mr. Yang Mingqing (“**Mr. Yang**”), aged 48, was the internal audit director of Ausnutria China. Mr. Yang graduated from Hunan Forestry School*（湖南省林業學校）. He joined the Group shortly after the establishment of Ausnutria China on 26 December 2003. Prior to joining the Group, Mr. Yang was in charge of the accounting department of various companies and has 9 years of experience in this industry. He was employed by Hunan Ava Nanshan Dairy as the deputy head of the finance department. From September 2003 to December 2010, he was the department manager, the assistant to the chief executive officer and general manager of the finance department of Ausnutria China. Mr. Yang was appointed as the Group’s internal audit director from January 2011 to June 2013 and was primarily responsible for the Group’s internal audit matters. Mr. Yang left the Group in June 2013.

COMPANY SECRETARIES

Mr. Wong Wei Hua Derek ("**Mr. Wong**"), aged 41, was appointed as company secretary on 26 September 2011. Mr. Wong's biographical details are set out under the section headed "Directors' and Senior Management's Biographies – Senior Management" above.

Ms. Ng Siu Hung ("**Ms. Ng**"), aged 44, was a joint company secretary until 3 December 2012. Ms. Ng's biographical details are set out under the section headed "Directors' and Senior Management's Biographies – Directors – Executive Directors" above.

Mr. Lam Hiu Fung ("**Mr. Lam**"), aged 41, was a joint company secretary and the Chief Financial Officer of the Company until 26 September 2011. Mr. Lam has over 16 years of experience in auditing, accounting and financial management. Prior to joining our Company, Mr. Lam has worked for KPMG from 1994 to 2003 and has been the Chief Financial Controller and Company Secretary of Artini China Company Limited (stock code: 00789), a company listed on the main board of the Stock Exchange from 2006 to 2009 and the Financial Controller of Bloomage BioTechnology Corporation Limited (stock code: 00963), a company listed on the main board of the Stock Exchange in 2010. Mr. Lam graduated from The Chinese University of Hong Kong with a bachelor degree of Business Administration. He is a Chartered Financial Analyst, a member of the Hong Kong Institute of Certified Public Accountants and an Associate of the Chartered Institute of Arbitrators. Mr. Lam is also a fellow member of the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong.

Corporate Governance Report

The Directors present the corporate governance report for the year ended 31 December 2011. In addition, the corporate governance report also sets out some of the corporate governance related matters for the year ended 31 December 2012 and for a period thereafter up to the date of this report.

CODE ON 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 its shareholders and improve its performance.

The Stock Exchange has revised and renamed the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Listing Rules to Corporate Governance Code (the "New CG Code") effective from 1 April 2012. The Board strives to implement the best practices embodies in the CG Code/New 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 for the relevant periods as the New CG Code are not yet in force during the year ended 31 December 2011, except for the following deviations:

Censure and criticism

While having not contested by the Company and the then Directors of the Company, the Listing Committee of the Stock Exchange (the "Listing Committee") on 28 May 2013:

(a) censured the Company for breaches of the then Rule 13.09 (in relation to the disclosure of price sensitive information) and the then Rule 10.06(2)(e) (in relation to share repurchases) of the Listing Rules;

(b) censured Mr. Chen Yuanrong (a former executive Director) for the breach of Appendix 5b (in relation to obligation under declaration and undertaking) to the Listing Rules; and

(c) criticised Mr. Wu Yueshi (a former executive Director and Chairman of the Board), Ms. Ng Siu Hung (an executive Director) and Mr. Yan Weibin (an executive Director) for the breach of Appendix 5b to the Listing Rules.

In addition, the Listing Committee has given some directions and the Company has complied with such directions, including, among other things, the appointment of Asian Capital (Corporate Finance) Limited as its compliance adviser on an on-going basis for consultation on compliance with the Listing Rules for a period of two years from 7 June 2013 and the attendance in a 24-hour training by certain Directors of the Company.

Delay in publishing the financial reports and convening annual general meetings

Further, as a result of the Unresolved Issues, the Group has breached the financial reporting provisions under the Listing Rules in (i) announcing the annual/interim results for the years ended 31 December 2011 and 2012 and for the six-month periods ended 30 June 2012 and 2013; (ii) publishing the related annual/interim reports for the above-mentioned years/periods; and (iii) convening an annual general meeting for the financial years ended 31 December 2011 and 2012.

Code provision A.1.8

Under code provision A.1.8 of the New CG Code, the Company should arrange appropriate insurance cover in respect of legal action against its directors.

Corporate Governance Report

On 26 September 2013, the Company's previous insurance company informed the Company that the directors and officers liability insurance, which was going to lapse on 7 October 2013, would not be renewed as a result of the Company's stock suspension and the insurance company was not in a position to undertake a full assessment for the risk exposure. The Company is in the process of identifying other insurance companies and will enter into a new directors and officers liability insurance in due course.

Code Provision A.2.7

Under code provision A.2.7 of the New CG Code, the chairman should at least annually hold meetings with non-executive directors (including independent non-executive directors) without the executive directors present.

On 1 November 2013, a meeting had been held among the chairman and the non-executive Director (including the independent non-executive Directors) without the other executive Directors present, to discuss, among other things, the status in relation to the Suspension and the latest development of the Group, No such meeting has been held during the year and up 31 October 2013.

Code provisions A.6.7 and E.1.2

Under code provision A.6.7 of the New CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. In addition, code provision E.1.2 of the New CG Code provides that the chairman of the board should attend the annual general meeting.

As referred to the section headed "Delay in publishing the financial reports and convening annual general meetings" above, the Company had not yet convened an annual general meeting for the financial years ended 31 December 2011 and 2012.

Internal control review

Apart from the above and save for the findings of the Internal Control Review conducted by PKF as disclosed under the section headed "Unresolved Issues identified by EY" in the chairman's statement as stated in this report, in the opinion of the Directors, the Company has complied with the code provisions set out in the CG Code during the year ended 31 December 2011.

COMPLIANCE ADVISER

Pursuant to the compliance advisor agreement dated 23 September 2009, the Company had engaged China Merchants Securities (HK) Co., Limited ("CMS") as the Company's compliance advisor for the period from 9 October 2009 (being the Company's Listing Date) to 28 March 2011 (being the date which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year after the Listing Date).

In addition, as stated above, the Company has appointed Asian Capital (Corporate Finance) Limited as its compliance adviser on an on-going basis for consultation on compliance with the Listing Rules for a period of two years from 7 June 2013.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") 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 the year ended 31 December 2011 and up to the date of this report.

BOARD OF DIRECTORS AND BOARD MEETINGS

Board of Directors

The Board comprises seven members, including four executive Directors and three independent non-executive Directors during the year ended 31 December 2011. The Board members have no financial, business, family or other material/relevant relationships with each other. The Board's composition is formed to be well balanced to ensure strong independence exists across the Board. The biographies of the Directors are set out on pages 43 to 46, with details of diversity of skills, expertise, experience and qualifications concerning the Directors.

The Board is responsible for the leadership and management of the Group's businesses as well as its strategic planning and performances. The management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Board committees. Details of these committees are set out in this report.

During the year, the Board comprises the chairman, executive Directors and independent non-executive Directors and has been disclosed in all the Company's announcements, circulars and its website.

The members of the Board during the year ended 31 December 2011 and as at that date were as follows:

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

Independent Non-executive Directors:
Mr. Qiu Weifa
Mr. Jason Wan
Mr. Chan Yuk Tong

Subsequent to 31 December 2011, on 7 June 2013, the following changes in the Board composition took place:

(a) Mr. Wu Yueshi resigned as executive Director and Chairman;

(b) Mr. Yan Weibin was elected as the Chairman;

(c) Mr. Chen Yuanrong resigned as executive Director and Chief Executive Officer;

(d) Mr. Bartle van der Meer was appointed as executive Director and Chief Executive Officer; and

(e) Mr. Dai Li was appointed as non-executive Director.

Corporate Governance Report

Subsequent to 31 December 2011, effective on 1 September 2013, the Company adopted a board diversity policy to recognise and embrace the benefits of building a diverse and inclusive Board as well as to achieve and maintain a sustainable development and a competitive advantage. An annual review of the composition of the Board according to the board diversity policy was recently done on 5 December 2013 by the nomination committee of the Company.

The Directors as of the date of this report were:

Executive Directors:
Mr. Yan Weibin *(Chairman)*
Mr. Bartle van der Meer *(Chief Executive Officer)*
Ms. Ng Siu Hung

Non-executive Director:
Mr. Dai Li

Independent Non-executive Directors:
Mr. Qiu Weifa
Mr. Jason Wan
Mr. Chan Yuk Tong

Board meetings

The Board meets to discuss the overall strategy as well as the operation and financial performance of the Group from time to time. Directors may participate either in person or through electronic means of communications. The number of board meetings held and the attendance of each Director at these meetings for the year ended 31 December 2011 and up to the date of this report have been set out as follows:

	2011 Attendance	**2012 Attendance**	**2013* Attendance**
Executive Directors:			
Mr. Wu Yueshi *(resigned on 7 June 2013)*	7/9	5/7	2/2
Mr. Yan Weibin	8/9	7/7	6/6
Mr. Chen Yuanrong *(resigned on 7 June 2013)*	9/9	7/7	2/2
Ms. Ng Siu Hung	9/9	7/7	6/6
Mr. Bartle van der Meer *(appointed on 7 June 2013)*	n/a	n/a	2/4
Non-executive Director:			
Mr. Dai Li *(appointed on 7 June 2013)*	n/a	n/a	4/4
Independent Non-executive Directors:			
Mr. Qiu Weifa	8/9	7/7	6/6
Mr. Jason Wan	7/9	5/7	6/6
Mr. Chan Yuk Tong	8/9	7/7	6/6

* Up to the date of this report

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the company secretary of the Company at all time and may seek independent professional advice at the Company's expense. Where queries are raised by Directors, steps would be taken to respond as promptly and fully as possible. All Directors have the opportunity to include matters in the agenda for Board meetings.

Board minutes are kept by the Company Secretary of the Company and are sent to the Directors for records and are open for inspection by the Directors.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has, since the early stage of its incorporation, segregated the duties of the Chairman of the Board and the Chief Executive Officer. The Chairman of the Board and the Chief Executive Officer were/are separately held by different Board members in order to preserve independence and have a balanced judgement of views. The Chairman of the Board has the responsibilities to lead the Board and make sure it works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. The Chief Executive Officer has the responsibilities to manage and execute the Group's business directions and operation decisions. In addition, the Board also comprises of independent non-executive Directors who can provide the Board with independent judgements, knowledge and experience.

REMUNERATION COMMITTEE

The Company has set up a remuneration committee, which consists of an executive Director and all the three independent non-executive Directors.

The primary duties of the remuneration committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group, review performance based remuneration, and ensure none of the Directors determine their own remuneration. Their written terms of reference of the remuneration committee are in line with the code provisions of both the CG Code and the New CG Code.

During the year ended 31 December 2011 and up to the date of this report, the number of remuneration committee meetings held and details of the attendance were as follows:

Committee member	2011 Attendance	2012 Attendance	2013* Attendance
Mr. Wu Yueshi	2/2	0/1	n/a
Mr. Yan Weibin	n/a	n/a	0/1
Mr. Qiu Weifa	2/2	1/1	1/1
Mr. Jason Wan	2/2	1/1	1/1
Mr. Chan Yuk Tong	1/2	1/1	1/1

Notes:

– On 28 March 2012, in adopting the New CG Code, Mr. Wu Yueshi ceased to be the chairman and remained as the member of the remuneration committee and Mr. Chan Yuk Tong was appointed as the chairman of the remuneration committee.

– On 7 June 2013, Mr. Wu Yueshi resigned as a member of the remuneration committee and Mr. Yan Weibin was appointed as a member of the remuneration committee.

* Up to the date of this report

NOMINATION COMMITTEE

The Company has established a nomination committee, which comprises an executive Director and all the three independent non-executive Directors. The primary duties of the nomination committee are to review the structure, size and composition of the Board and to review the diversity policy of the Board or the Committee on a regular basis and to recommend to the Board suitable candidates for directorship after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. Their written terms of reference of the nomination committee are in line with the code provisions of both the CG Code and the New CG Code.

During the year ended 31 December 2011 and up to the date of this report, the number of nomination committee meetings held and details of the attendance were as follows:

Committee member	2011 Attendance	2012 Attendance	2013* Attendance
Mr. Wu Yueshi	1/1	0/1	n/a
Mr. Yan Weibin	n/a	n/a	1/1
Mr. Qiu Weifa	1/1	1/1	1/1
Mr. Jason Wan	1/1	1/1	1/1
Mr. Chan Yuk Tong	1/1	1/1	1/1

Note:

On 7 June 2013, Mr. Wu Yueshi resigned as a member and chairman of the nomination committee and Mr. Yan Weibin was appointed as a member and chairman of the nomination committee.

* Up to the date of this report

AUDIT COMMITTEE

The audit committee comprises all the three independent non-executive Directors. The primary duties of the audit committee are to make recommendations to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. Their written terms of reference of the audit committee are in line with the code provisions of both the CG Code and the New CG Code.

During the year ended 31 December 2011 and up to the date of this report, the number of audit committee meetings held and details of the attendance were as follows:

Committee member	2011 Attendance	2012 Attendance	2013* Attendance
Mr. Chan Yuk Tong *(Chairman)*	2/2	1/1	1/1
Mr. Qiu Weifa	2/2	1/1	1/1
Mr. Jason Wan	2/2	0/1	1/1

* Up to the date of this report

In accordance with its written terms of reference, the audit committee meetings shall be held not less than two times a year to review the interim results and annual results of the Group. As a result of the Unresolved Issues which had resulted in the delay in the issuance of the annual/interim results for the year ended 31 December 2012 and for the six-month periods ended 30 June 2012 and 2013, only one audit committee meeting had been held for the year ended 31 December 2012 and the period from 1 January 2013 to the date of this report.

The audit committee has reviewed the annual report with the management and the external auditors and recommended its adoption by the Board.

Full minutes of audit committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the audit committee meetings were sent to all members of the committee for their comments and records respectively within a reasonable time after the meeting.

SPECIAL REVIEW COMMITTEE

In response to the Unresolved Issues, the Board has put high emphasis on this, and dealt promptly on 29 March 2012 by establishing the special review committee (the "Special Review Committee" or the "SRC") comprised two of the Company's independent non-executive directors, namely Mr. Qiu Weifa and Mr. Chan Yuk Tong, for the purpose of, among other things, investigating into the Unresolved Issues. Details of the works and findings of the SRC are set out in the section headed "Unresolved Issues identified by EY" in the Chairman's Statement of this report.

AUDITORS' REMUNERATION

For the year ended 31 December 2011, the total fee paid or payable in respect of audit and non-audit services provided by the Group's external auditors were as follows:

	RMB
Audit service	3,922,000
Interim review service	460,000
Professional services rendered in connection with the Subscription and the Acquisition	1,624,000
	6,006,000

FINANCIAL REPORTING

The Directors acknowledged their responsibility for preparing consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant financial period. In preparing the consolidated financial statements for the year ended 31 December 2011, the Directors ensured that the consolidated financial statements have been prepared in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis. The Directors are also responsible for the timely publication of the consolidated financial statements of the Group.

However, due to the Unresolved Issues, there has been a delay in publishing the consolidated financial statements for the years ended 31 December 2011 and 2012 as well as for the six-month periods ended 30 June 2012 and 2013.

In addition, as detailed in the section headed "Basis of preparation and restatement of financial statements for the year 2009 and the year 2010" in the "Management Discussion and Analysis" section of this report, since the relevant books and records of Ausnutria China are incomplete, no representation is made by the Board as to the completeness, occurrence and accuracy of the revenue, cost of sales and hence the corresponding gross profit that were attributed to the Ausnutria Group for the six month period ended 31 December 2009 (and therefore for the year ended 31 December 2009), and for the years ended 31 December 2010 and 2011.

The Directors confirm that, having made all reasonable enquiries, that to the best of their knowledge, information and belief, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The statement made by Ernst & Young, the independent auditors of the Company, about their reporting responsibilities on the consolidated financial statements of the Group as well as their disclaimer of opinion are set out in the "Independent Auditors' Report" of this annual report.

INTERNAL CONTROLS

The Board is responsible for overseeing the Company's internal control system.

The Board and the management of the Group aims to maintain a sound and effective system of internal control of the Group so as to ensure the effectiveness and efficiency of operations of the Group in achieving the established corporate objectives, safeguarding assets of the Group, rendering reliable financial reporting and complying with the applicable laws and regulations. During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company. The Board is also responsible for making appropriate assertions on the adequacy of internal control and procedures. Through the audit committee of the Group, the Board reviews the effectiveness of these systems on a regular basis.

As a result of the Unresolved Issues, the Company has engaged PKF, an independent internal control advisor, to carry out an internal control review of the Company and Ausnutria China. Details of the PKF findings and remedial actions carried out by the Company and Ausnutria China are set out in the section headed "Unresolved Issues identified by EY" in the Chairman's Statement in this report as well as in the Company's announcement dated 11 November 2013.

During the follow-up review, all material internal control deficiencies (which may lead to potential material adverse financial impact and/or require urgent rectifications) of the entity-level and process-level components of internal control systems of the Company and Ausnutria China identified by PKF in the first phase have been rectified by the Company and Ausnutria China.

In view of the results of the Internal Control Review and all the rectification actions taken by the Company and Ausnutria China, the Special Review Committee and the Board consider that the material internal control weaknesses that might have given rise to the Unresolved Issues raised by EY and covered in the PwC Report have been rectified. The Special Review Committee and the Board are committed to (i) supervising the management of the Company and Ausnutria China to complete the implementation of PKF's recommendations to rectify the outstanding medium risk internal control weaknesses, and (ii) maintaining sound and effective internal controls to safeguard shareholders' investment and the Group's assets. The Company is in the process of finalising an engagement with PKF to conduct a further review of the Group's other internal control components which was not covered by the internal control review conducted.

SHAREHOLDERS' RELATIONS

The Board recognises the importance of maintaining clear, timely and effective communication with shareholders of the Company and investors. Despite the censure on the Company and a former Director of the Company and criticism of certain current and former Directors of the Company by the Stock Exchange without contest by the Company and the relevant Directors as further detailed in the section headed "Censure and criticism" above, to the best belief of the Board, the Company has published all of its announcements in time in accordance with the Listing Rules. Besides, The Board maintains regular dialogues with institutional investors and analysts to keep them informed of the Group's strategy, operations, management and plans. The Directors and the members of the various board committees would attend and answer questions raised at the annual general meeting of the Company, and significant issues will be put as separate proposed resolutions.

Corporate Governance Report

CONVENING A GENERAL MEETING

The Directors acknowledge their responsibility for the timely holding of annual general meetings. As disclosed in the section headed "Delay in publishing the financial reports and convening annual general meetings" above, the Company had not yet convened an annual general meeting for the financial years ended 31 December 2011 and 2012.

Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition. The requisition must be signed by the requesting shareholders and deposit at the principal place of business of the Company in Hong Kong.

The meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

There has been no request for holding such meeting received up to the date of this report.

PROCEDURES BY WHICH ENQUIRIES MAY BE PUT TO THE BOARD

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company Secretary by mail at the Company's correspondence address in Hong Kong. The Company Secretary forwards communications relating to matters within the Board's purview to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and consumer complaints, to the chief executive officer.

CONSTITUTIONAL DOCUMENTS

Saved for the changes to the terms of reference of certain committees of the Board to effect the changes in the requirements under the Listing Rules and to accommodate the changing needs of the Company, during the year ended 31 December 2011 and up to the date of this report, there had been no significant change in the Company's constitutional documents.

Report of the Directors

The Directors present their report and the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company of the Group. The Group is principally engaged in the production, marketing and distribution of paediatric milk formula products. During the year, as a result of the Subscription and the Acquisition, the Group is now also engaged in the dairy industry in the Netherlands with activities ranging from research and development, milk collection, processing, production, packaging, marketing and sales of dairy products to customers in the Netherlands and other overseas countries. Details of the principal activities of the Company's subsidiaries are set out in note 18 to the financial statements.

An analysis of the Group's performance for the year by operating segment is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 73 to 172.

In view of the Proposed Transaction and the warranty given by the Company as set out in the COA, the Directors do not recommend the payment of a dividend for the year ended 31 December 2011 (year ended 31 December 2010: HK$3 cents; year ended 31 December 2009: HK$6 cents).

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years (with the 2009 and 2010 financial information being restated as explained in note 2.1 to the financial statements) is set out on page 173 to 174. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

BANK BORROWINGS

Details of the bank borrowings of the Group are set out in note 28 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's issued share capital during the year are set out in note 32 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's existing articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased a total of 69,157,000 Shares of the Company on the Stock Exchange. These Shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these Shares. Details of the repurchases during the year under review are summarised as follows:

Month of repurchases in 2011	Number of Shares repurchased	Highest price per Share	Lowest price per Share	Aggregate consideration paid
		HK$	HK$	HK$
January	4,046,000	2.85	2.56	11,005,000
February	53,794,000	2.55	2.38	133,483,920
September	6,617,000	1.39	1.25	8,711,300
October	4,700,000	1.35	1.24	6,119,900
	69,157,000			159,320,120

The repurchase of the Company's Shares during the year was effected by the Directors, pursuant to the mandate from shareholders received at the last annual general meeting on 16 May 2011, with a view to benefiting shareholders as a whole by enhancing the net asset value per Share and earnings per Share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2011 and up to the date of this report (years ended 31 December 2009 and 2010: Nil).

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2011, the Company's accumulated losses amounted to approximately RMB61,308,000 (31 December 2010: RMB29,778,000; 31 December 2009: RMB409,000). The Company's share premium account, in the amount of RMB533,856,000 (31 December 2010: RMB649,167,000; 31 December 2009: RMB675,843,000) as at 31 December 2011, may be distributed under special circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for less than 14.5% (2010 (as restated): 18.7%; 2009 (as restated): 28.2%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 4.1% (2010 (as restated): 7.9%; 2009 (as restated): 10.4%). Purchases from the Group's five largest suppliers accounted for approximately 84.4% (2010: 87.0%; 2009: 92.3%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 49.0% (2010: 82.2%; 2009: 81.5%).

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and five largest suppliers.

DIRECTORS

The Directors who were in the office during the year and as at 31 December 2011 were as follows:

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

Independent non-executive Directors:
Mr. Qiu Weifa
Mr. Jason Wan
Mr. Chan Yuk Tong

Subsequent to 31 December 2011, on 7 June 2013, the changes in the Directors, Chairman and Chief Executive Officer of the Company were as follows:

(a) Mr. Wu Yueshi resigned as an executive Director and Chairman of the Board;

(b) Mr. Yan Weibin was appointed as Chairman of the Board;

(c) Mr. Chen Yuanrong resigned as an executive Director and Chief Executive officer;

(d) Mr. Bartle van der Meer was appointed as an executive Director and Chief Executive Officer; and

(e) Mr. Dai Li was appointed as a non-executive Director.

In accordance with article 84 of the Company's existing articles of association, the directors shall be elected at the general meeting each for a term of not more than three years. One-third of the directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office at the annual general meeting (the "AGM"). Every director (including directors with fixed terms of appointment) shall be subject to retirement by rotation at least once every three years. Any person appointed as a director either to fill a casual vacancy or as an addition to the board of directors shall be subject to election by shareholders at the first general meeting after the appointment. Accordingly, Mr. Yan Weibin, Mr. Bartle van der Meer, Ms. Ng Siu Hung, Mr. Dai Li and Mr. Chan Yuk Tong will retire by rotation at the conclusion of the forthcoming AGM and, being eligible, offer themselves for re-election. An ordinary resolution approving their re-elections will be proposed at the forthcoming AGM.

The Company has received confirmations of independence from each of its independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules for the year and up to the date of this report. The Company considers all of its independent non-executive Directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Directors' and Senior Management's Biographies" of the annual report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the year.

DIRECTORS' SERVICE CONTRACTS

All the four executive Directors during the year and as at 31 December 2011 had each entered into a service contract with the Company for a term of 3 years commencing on 8 October 2009 up to 7 October 2012. Subsequent to 31 December 2011, the service contracts of Mr. Yan Weibin and Ms. Ng Siu Hung with the Company have been renewed for another 3 years on substantially the same terms save for the adjustments on their remuneration package.

Subsequent to 31 December 2011, on 1 November 2013, Mr. Bartle van der Meer and Mr. Dai Li had each entered into a service contract with the Company for a term of 3 years commencing on 7 June 2013 (being the date of their appointments) up to 6 June 2016.

The three independent non-executive Directors have each entered into service contract with the Company for a term of 2 years commencing on 1 October 2011 up to 30 September 2013. Subsequent to 31 December 2011, the service contracts of the three independent non-executive Directors had been renewed for another 2 years on substantially the same terms save for the adjustments on their remuneration package.

No Director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' remuneration is determined by the Board, as authorised by the shareholders at general meetings, with reference to the recommendation by the remuneration committee of the Company after taking into consideration the Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save for the related party transactions set out in note 39(a) to the financial statements which are not regarded as connected transactions as defined under the Listing Rules, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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

As at 31 December 2011 and as at that the date of this report, the interests and short positions of the Directors and chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Name	Number of ordinary share	Nature of interest	Percentage of issued share capital
As at 31 December 2011			
Mr. Wu (i)	474,646,000	Interest of a controlled corporation	48.10%
Mr. Chen (ii)	107,000,000	Interest of a controlled corporation	10.84%
Mr. Yan (iii)	474,646,000	Interest of a controlled corporation	48.10%
As at the date of this report			
Mr. Yan (iii)	474,646,000	Interest of a controlled corporation	48.10%
Mr. van der Meer (iv)	213,125,000	Interest of a controlled corporation	21.60%

Notes:

(i) The shareholding interest of Mr. Wu is being held through Brave Leader Limited ("Brave Leader"), Silver Castle International Limited ("Silver Castle") and Ausnutria Holding Co. Ltd. ("Ausnutria BVI"). Brave Leader, Silver Castle and Ausnutria BVI were beneficially held as to 59.57%, 59.57% and 60% respectively by Mr. Wu. Mr. Wu resigned as a Director on 7 June 2013.

(ii) The shareholding interest of Mr. Chen is being held through All Harmony International Limited ("All Harmony") which was held as to 49.22% by Mr. Chen. Mr. Chen resigned as a Director and Chief Executive Officer on 7 June 2013.

(iii) The shareholding interest of Mr. Yan is being held through Brave Leader, Silver Castle and Ausnutria BVI. Brave Leader, Silver Castle and Ausnutria BVI were beneficially held as to 9.76%, 9.76% and 30% respectively by Mr. Yan. The above disclosure of interests in the Company is made based on the voluntary declaration submitted by Mr. Yan although Mr. Yan beneficially controls less than one third of interests in each of Brave Leader, Silver Castle and Ausnutria BVI.

(iv) The shareholding interest of Mr. van der Meer is being held through Dutch Dairy Investments B.V. ("DDI"). DDI is owned as to approximately 46.55% by PMH Investments B.V., which is beneficially owned as to 85% by Mr. van der Meer and 15% by Mr. Durk Andries van der Meer, being the son of Mr. van der Meer. Of these shares, 11,000,000 shares were beneficially held by DDI as at 31 December 2011 and 202,125,000 COA Shares are to be issued by the Company to DDI as the consideration shares upon the exercise of the call option pursuant to the COA dated 7 June 2013.

Save as disclosed above, as at 31 December 2011 and as at the date of this report, none of the Directors and chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Other than the disclosure above, as disclosed in the Company's announcement dated 18 September 2013, Brave Leader, Silver Castle, Ausnutria BVI, and All Harmony (together, being the Vendors), entered into a non-binding letter of intent with an independent third party purchaser (the "Purchaser") on 17 September 2013, pursuant to which the Vendors intend to sell and the Purchaser intends to purchase from the Vendors a portion of the Shares held by the Vendors.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as the COA Shares disclosed in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, at no time during the period since 31 December 2010 to the date of this report were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

According to the register kept by the Company pursuant to Section 336 of the SFO and so far as was known to, or can be ascertained after reasonable enquiry by the Directors, the following persons (other than the Directors and chief executive of the Company) had and interest or short position in the shares and underlying interests of 5% or more of the issued share capital of the Company were as follows:

Name	Number of ordinary shares	Nature of interest	Percentage of issued share capital
As at 31 December 2011			
All Harmony (1)	107,000,000	Registered owner	10.84%
Brave Leader (2)	214,646,000	Registered owner	21.75%
Silver Castle (3)	60,000,000	Registered owner	6.08%
Ausnutria BVI (4)	200,000,000	Registered owner	20.27%
Ms. Xiong Fanyi ("Mrs. Wu") (5)	474,646,000	Family interest	48.10%
As at the date of this report			
All Harmony (1)	107,000,000	Registered owner	10.84%
Brave Leader (2)	214,646,000	Registered owner	21.75%
Silver Castle (3)	60,000,000	Registered owner	6.08%
Ausnutria BVI (4)	200,000,000	Registered owner	20.27%
Mr. Chen (1)	107,000,000	Interest of a controlled corporation	10.84%
Mr. Wu (2,3,4)	474,646,000	Interest of a controlled corporation	48.10%
Mrs. Wu (5)	474,646,000	Family interest	48.10%

Notes:

1. All Harmony is owned as to 49.22% by Mr. Chen and a number of former and present employees of the Group.

2. Brave Leader is owned as to 59.57% by Mr. Wu, 30.67% by Ms. Wu Xing Xing ("Ms. Wu"), the elder sister of Mr. Wu and 9.76% by Mr. Yan.

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

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

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

Save as disclosed above, as at 31 December 2011, no person, other than the Directors, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, the Ausnutria Hyproca Group does not only supply paediatric milk formula products to the Group but also other distributors in the PRC. Further, the Ausnutria Hyproca Group also distributes dairy products worldwide including the PRC under its separate brand. As such. Mr. van der Meer, being an associate of Ausnutria Hyproca, is deemed to have a competing interest with the business of the Ausnutria Group by such reason.

Save as disclosed above, during the year and up to date of this report, none of the Directors nor their respective associates had any businesses or interests which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

COMPLIANCE ADVISORS' INTEREST

Reference is made to the news release published by the Stock Exchange on 28 May 2013, in relation to, among other things, the censure of the Company for breaching Rules 13.09 and 10.06(2)(e) of the Listing Rules, which the Company and the Directors decided not to contest the allegation. As a result, the Stock Exchange has directed the Company, among other things, to appoint a compliance advisor on an on-going basis for consultation on compliance with the Listing Rules for a period of two years.

Subsequent to 31 December 2011, on 7 June 2013, the Company had appointed Asian Capital (Corporate Finance) Limited ("ACCF") as the Company's compliance advisor on an on-going basis for consultation on compliance with the Listing Rules for a period of two years commencing from 7 June 2013. During the term of the appointment, ACCF will be accountable to the Company's audit committee. As notified by ACCF, during the period from 7 June 2013 up to the date of this report, neither ACCF nor any of its directors, employees or associates had any interests in the shares of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company or any member of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 51 to 60 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 43 to the financial statements.

AUDITORS

There has been no change in the Company's auditors for the past three years. Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Yan Weibin
Chairman

Changsha City, the PRC
5 December 2013

Independent Auditors' Report

Building a better working world

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To the shareholders of Ausnutria Dairy Corporation Ltd
(Incorporated in the Cayman Islands with limited liability)

We were engaged to audit the consolidated financial statements of Ausnutria Dairy Corporation Ltd (the "Company") and its subsidiaries (together, the "Group") set out on pages 73 to 172, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

During the course of our audit, we noticed, among other matters, certain irregularities in the accounting records of a wholly-owned subsidiary of the Company, Ausnutria Dairy (China) Co., Ltd. ("Ausnutria China"). These irregularities mainly related to certain sales transactions and related accounts, including but not limited to, revenue, cost of sales, trade receivables, inventories and other payables (collectively referred to as the "Unresolved Issues"). The Unresolved Issues raised our concern over the authenticity of Ausnutria China's accounting records and supporting documents, including those relating to sales transactions in the amount of approximately RMB123 million (RMB143.5 million inclusive of value-added-tax) recorded in the month of December 2011.

BASIS FOR DISCLAIMER OF OPINION (continued)

The Unresolved Issues mainly included the following.

- there were inconsistencies between goods delivery documents and the accounting records for certain sales transactions in December 2011, and replies from distributors (who are customers of the Group) to supplementary confirmation procedures initiated by Ausnutria China regarding the December 2011 sales transactions revealed further anomalies;

- there were discrepancies during 2011 between the quantity of inventories sold in the accounting records and the quantity of inventories delivered to the distributors in summary delivery records provided by the Group's logistic service provider; and

- data in the old sales order system, which should have ceased to be used from October 2011, had been manually altered after that time, and data in the inventory barcode system had been manually altered without reasonable cause.

We reported the Unresolved Issues to the board of directors of the Company (the "Board") in March 2012. This led to the establishment by the Board of a special review committee of the Company (the "SRC") on 29 March 2012, whose findings cast doubts over the completeness and authenticity of certain records and documents of Ausnutria China and over the reliability of the information and explanations provided to us by certain members of management of Ausnutria China.

As further explained in note 2.1 to the financial statements, at the request of the SRC, the chief financial officer of the Company and several senior managers of Ausnutria China (the "Management") performed certain procedures to quantify the financial impact to the financial statements for the year ended 31 December 2011 and prior years. The Management, the SRC and the Board considered that the best available information on hand for the purpose of quantifying the financial impact was the order books (the "Order Books") maintained by the staff in the sales accounting department to keep track of the sales order status of, and cash receipts from, distributors.

After their investigation and after giving consideration to the quantification by the Management, the SRC and the Board concluded that errors due to the early recognition of sales before delivery had occurred in Ausnutria China since October 2009. Accordingly, the Company has also restated the comparative figures for the years ended 31 December 2010 and 2009 in the consolidated financial statements for the year ended 31 December 2011. As further explained in note 2.5 to the financial statements, the revenue for the years ended 31 December 2010 and 2009 were restated downwards by approximately RMB65 million and RMB78 million, respectively, while the profit for those two years was restated downwards by approximately RMB50 million and RMB40 million, respectively.

BASIS FOR DISCLAIMER OF OPINION (continued)

For reasons described below, we were not able to satisfy ourselves on the validity, completeness and accuracy of the adjustments made by the Company for the years 2011, 2010 and 2009 as a result of the above investigation and quantification. In particular, the procedures to restate the revenue amounts by the Company were primarily based on the Order Books, which recorded the monetary amounts of sales orders, dates of orders received and dates of cash receipts using computer spreadsheets, but did not contain any information on the inventory type, quantity, unit price nor date of delivery. In addition, the Order Books were not part of Ausnutria China's financial reporting system, were not subject to the process of internal controls, and had not been reconciled with any other accounting-related documentation such as warehouse records or delivery documents. The Company estimated the revenue in each year using the total monetary amounts of sales orders received as recorded in the Order Books, after adjusting for those orders received around the respective year end dates to allow for the estimated timing of delivery to distributors. Due to the break down of the computer hard disk hosting the old sales system and lack of back-up data, there was no practical way for us to verify the authenticity and completeness of the sales order information in the Order Books and the sales cut-off estimates at the respective year end dates, as well as assessing whether the restated revenue amounts appropriately reflected the goods sold and delivered in the respective years.

Regarding the cost of sales and inventories adjustments, the Company separately estimated the average gross margin rates which it considered to be reasonable for the years 2011, 2010 and 2009 respectively, and then deduced the amount of adjustments needed for each of the respective years. However, we have not been provided with sufficient documentation and explanations to support such estimates of average gross margin rates to our satisfaction. Accordingly, the adjustments made to cost of sales might not have the appropriate correlation to the above revenue adjustments, and the resulting gross profit might not have properly reflected the results of sales transactions for the respective years. In addition, the corresponding adjustments made to inventories, trade receivables and other payables might not reflect the amounts of inventories held and amounts due from and due to distributors at the respective year end dates.

In summary, there were no practicable audit procedures that we could perform to satisfy ourselves on the reliability of information originated from the Order Books and estimates used in the determination of the sales transactions and related accounts, and consequently, we could not obtain sufficient appropriate audit evidence that the adjustments made to the financial statements for the year ended 31 December 2011 and for the years prior thereto as disclosed in note 2.5 to the consolidated financial statements (the "Adjustments") are complete and accurate in all material respects.

Any adjustments to the financial statement line items affected by the Adjustments found to be necessary would have a consequential effect on the Group's net assets as at 31 December 2011, 2010 and 2009, its profit for the respective years then ended, the related elements making up the consolidated statements of changes in equity and the consolidated statements of cash flows and the related disclosures thereof in the consolidated financial statements.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements as to whether the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, 2010 and 2009 and of its profit and cash flows for the years then ended in accordance with International Financial Reporting Standards and as to whether they have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
5 December 2013

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
REVENUE	5	629,214	513,890	545,584
Cost of sales		(409,742)	(250,710)	(277,224)
Gross profit		219,472	263,180	268,360
Other income and gains	5	25,976	21,520	6,898
Selling and distribution expenses		(127,318)	(174,449)	(91,947)
Administrative expenses		(44,446)	(21,584)	(10,565)
Other expenses		(19,493)	(20,367)	(41)
Finance costs	7	(1,436)	(1,369)	(4,184)
Share of profits/(losses) of associates		5,006	(104)	–
Gain on remeasurement of interests upon acquisition	34	14,126	–	–
Profit before tax	6	71,887	66,827	168,521
Income tax expense	10	(21,453)	(6,877)	(26,288)
PROFIT FOR THE YEAR		50,434	59,950	142,233
Attributable to:				
Owners of the parent	11	44,275	59,950	142,233
Non-controlling interests		6,159	–	–
		50,434	59,950	142,233
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT				
– basic and diluted (RMB)	13	4.45 cents	5.74 cents	16.61 cents
OTHER COMPREHENSIVE (LOSS)/INCOME				
Exchange difference on translation of foreign operations		(27,360)	138	(210)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		23,074	60,088	142,023
Attributable to:				
Owners of the parent	11	28,861	60,088	142,023
Non-controlling interests		(5,787)	–	–
		23,074	60,088	142,023

Consolidated Statement of Financial Position

31 December 2011

	Notes	31 December 2011 RMB'000	31 December 2010 RMB'000 (Restated)	31 December 2009 RMB'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	14	251,619	38,161	26,934
Prepaid land lease payments	15	2,199	2,256	2,313
Goodwill	16	82,891	–	–
Other intangible assets	17	31,305	1,855	326
Investments in associates	19	1,730	2,611	–
Deferred tax assets	30	22,896	4,017	–
Long-term prepayment		–	23,108	–
Total non-current assets		392,640	72,008	29,573
CURRENT ASSETS				
Inventories	20	261,614	126,348	83,093
Trade and bills receivables	21	177,792	59,045	8,747
Prepayments, deposits and other receivables	22	49,384	88,132	68,808
Held-to-maturity investments	23	200,000	200,000	–
Tax recoverable		3,819	19,121	–
Time deposits		110,000	–	–
Cash and cash equivalents	24	342,241	638,984	1,465,887
Total current assets		1,144,850	1,131,630	1,626,535
CURRENT LIABILITIES				
Trade payables	25	84,297	8,784	25,358
Other payables and accruals	26	259,508	149,286	233,513
Derivative financial instruments	27	1,175	–	–
Interest-bearing bank loans and other borrowings	28	91,386	–	350,000
Tax payable		5,204	–	6,551
Total current liabilities		441,570	158,070	615,422
NET CURRENT ASSETS		703,280	973,560	1,011,113
TOTAL ASSETS LESS CURRENT LIABILITIES		1,095,920	1,045,568	1,040,686

Consolidated Statement of Financial Position

31 December 2011

	Notes	31 December 2011 RMB'000	31 December 2010 RMB'000 (Restated)	31 December 2009 RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,095,920**	1,045,568	1,040,686
NON-CURRENT LIABILITIES				
Interest-bearing bank loans and other borrowings	28	**42,669**	–	–
Defined benefit plan	29	**13,207**	–	–
Deferred tax liabilities	30	**28,927**	–	–
Other liabilities		**490**	–	–
Total non-current liabilities		**85,293**	–	–
Net assets		**1,010,627**	1,045,568	1,040,686
EQUITY				
Equity attributable to owners of the parent				
Issued capital	32	**86,866**	92,066	92,066
Reserves	33(a)	**840,376**	926,826	893,414
Proposed final dividends	12	**–**	26,676	55,206
		927,242	1,045,568	1,040,686
Non-controlling interests		**83,385**	–	–
Total equity		**1,010,627**	1,045,568	1,040,686

Yan Weibin
Director

Chan Yuk Tong
Independent Non-executive Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

		Attributable to owners of the parent									
	Notes	Issued capital RMB'000 (note 32)	Share premium account RMB'000	Capital reserve RMB'000 (note 33(a))	Statutory surplus reserve RMB'000 (note 33(a))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011:											
As previously reported		92,066	649,167	23,406	39,410	(52)	304,999	26,676	1,135,672	–	1,135,672
Prior year adjustments		–	–	–	–	–	(90,104)	–	(90,104)	–	(90,104)
As restated		92,066	649,167	23,406	39,410	(52)	214,895	26,676	1,045,568	–	1,045,568
Profit for the year		–	–	–	–	–	44,275	–	44,275	6,159	50,434
Other comprehensive loss for the year: Exchange differences on translation of foreign operations		–	–	–	–	(15,414)	–	–	(15,414)	(11,946)	(27,360)
Total comprehensive income/(loss) for the year		–	–	–	–	(15,414)	44,275	–	28,861	(5,787)	23,074
Acquisition of subsidiaries	34	–	–	–	–	–	–	–	–	89,172	89,172
Final 2010 dividend declared and paid		–	1,876**	–	–	–	–	(26,676)	(24,800)	–	(24,800)
Issue of shares	32(b)	893	11,247	–	–	–	–	–	12,140	–	12,140
Repurchase of shares	32(a)	(6,093)	(128,434)	–	–	–	–	–	(134,527)	–	(134,527)
Transfer from retained profits		–	–	–	3,994	–	(3,994)	–	–	–	–
At 31 December 2011		86,866	533,856*	23,406*	43,404*	(15,466)*	255,176*	–	927,242	83,385	1,010,627

	Note	Attributable to owners of the parent							
		Issued capital RMB'000 (note 32)	Share premium account RMB'000	Capital reserve RMB'000 (note 33(a))	Statutory surplus reserve RMB'000 (note 33(a))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total equity RMB'000
At 1 January 2010:									
As previously reported		92,066	675,843	23,406	26,598	(190)	207,644	55,206	1,080,573
Prior year adjustments		–	–	–	–	–	(39,887)	–	(39,887)
As restated		92,066	675,843	23,406	26,598	(190)	167,757	55,206	1,040,686
Profit for the year (as restated)		–	–	–	–	–	59,950	–	59,950
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations		–	–	–	–	138	–	–	138
Total comprehensive income for the year		–	–	–	–	138	59,950	–	60,088
Final 2009 dividend declared		–	–	–	–	–	–	(55,206)	(55,206)
Proposed final 2010 dividend	12	–	(26,676)	–	–	–	–	26,676	–
Transfer from retained profits		–	–	–	12,812	–	(12,812)	–	–
At 31 December 2010 (restated)		92,066	649,167*	23,406*	39,410*	(52)*	214,895*	26,676	1,045,568
At 1 January 2009		–	–	23,406	8,555	20	73,567	–	105,548
Profit for the year (as restated)		–	–	–	–	–	142,233	–	142,233
Other comprehensive loss for the year:									
Exchange differences on translation of foreign operations		–	–	–	–	(210)	–	–	(210)
Total comprehensive income/(loss) for the year		–	–	–	–	(210)	142,233	–	142,023
Contribution from the owners		–	–	102,479	–	–	–	–	102,479
Distribution to the owners		–	–	(102,479)	–	–	–	–	(102,479)
Capitalisation issue		70,438	(70,438)	–	–	–	–	–	–
Issue of shares		21,628	841,771	–	–	–	–	–	863,399
Share issue expenses		–	(40,284)	–	–	–	–	–	(40,284)
Special dividend declared and paid		–	–	–	–	–	(30,000)	–	(30,000)
Proposed final 2009 dividend	12	–	(55,206)	–	–	–	–	55,206	–
Transfer from retained profits		–	–	–	18,043	–	(18,043)	–	–
At 31 December 2009 (restated)		92,066	675,843*	23,406*	26,598*	(190)*	167,757*	55,206	1,040,686

* These reserve accounts comprise the consolidated reserves of RMB840,376,000 (2010: RMB926,826,000, 2009: RMB893,414,000) in the consolidated statement of financial position.

** The amount represented the non-distributed proposed dividend which arose from repurchase of shares before payment of 2010 final dividend.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		71,887	66,827	168,521
Adjustments for:				
Finance costs	7	1,436	1,369	4,184
Interest income	5	(5,002)	(3,892)	(4,194)
Depreciation	6	9,849	2,979	2,254
Loss on disposal of property, plant and equipment	6	–	–	23
Share of (profits)/losses of associates		(5,006)	104	–
Gain on remeasurement of interests upon acquisition	34	(14,126)	–	–
Interest income on held-to-maturity investments	5	(10,300)	(9,038)	–
Amortisation of other intangible assets	6	813	118	67
Amortisation of prepaid land lease payments	6	57	57	57
Elimination of unrealised profit on sales to associate		1,024	–	–
Write-down of inventories to net realisable value	6	1,307	–	–
		51,939	58,524	170,912
Increase in inventories		(39,733)	(43,255)	(3,128)
Increase in trade and bills receivables		(41,064)	(50,298)	(12,086)
Decrease/(increase) in prepayments, deposits and other receivables		71,916	(19,324)	(40,498)
Increase/(decrease) in trade payables		20,971	(16,574)	10,878
Increase/(decrease) in other payables and accruals		62,653	(10,903)	101,973
Cash generated from/(used in) operations		126,682	(81,830)	228,051
Interest received		3,700	3,892	4,194
Interest paid		(1,313)	(1,369)	(4,184)
The PRC corporation income tax paid		(157)	(36,565)	(26,861)
Overseas tax paid		(1,524)	–	–
Net cash flows from/(used in) operating activities		127,388	(115,872)	201,200
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(15,625)	(14,206)	(3,041)
Proceeds from disposal of property, plant and equipment		–	–	264
Purchase of intangible assets		(8,717)	(1,647)	–
Purchase of held-to-maturity investments	23	(200,000)	(200,000)	–
Investments in associates		(300)	(2,715)	–
Increase in time deposits		(110,000)	–	–
Acquisition of a subsidiaries, net of cash acquired	34	(128,773)	–	–
Interest income on held-to-maturity investments		9,972	9,038	–
Proceeds on disposal of associates		400	–	–
Proceeds received from held-to-maturity investments	23	200,000	–	–
(Increase)/decrease in amounts due from related parties included in prepayments, deposits and other receivables		–	(23,113)	5,555
Net cash flows (used in)/from investing activities		(253,043)	(232,643)	2,778

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repurchase of shares	32(a)	(134,527)	–	–
New bank loans and other borrowings		7,649	–	510,000
Repayment of bank loans		(3,163)	(350,000)	(190,000)
Repayment of other borrowings		(13,618)	–	–
Gross proceeds from issuance of new shares upon listing		–	–	863,399
Payment of listing expenses		–	–	(40,284)
Dividend paid		(24,800)	(53,333)	(30,000)
Interest element of finance lease rental payments		(13)	–	–
(Decrease)/increase in amounts due to related parties included in other payables and accruals		–	(73,320)	71,345
Net cash flows (used in)/from financing activities		(168,472)	(476,653)	1,184,460
NET DECREASE/(INCREASE) IN CASH AND CASH EQUIVALENTS		(294,127)	(825,168)	1,388,438
Cash and cash equivalents at beginning of year		638,984	1,465,887	77,659
Effect of foreign exchange rate changes, net		(2,616)	(1,735)	(210)
CASH AND CASH EQUIVALENTS AT END OF YEAR		342,241	638,984	1,465,887
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and cash equivalents	24	342,241	638,984	1,465,887

Statement of Financial Position

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
NON-CURRENT ASSETS				
Investments in subsidiaries	18	**171,320**	171,320	171,320
Total non-current assets		**171,320**	171,320	171,320
CURRENT ASSETS				
Prepayments, deposits and other receivables	22	**574,181**	388,722	10,966
Cash and cash equivalents	24	**16,144**	382,152	906,905
Total current assets		**590,325**	770,874	917,871
CURRENT LIABILITIES				
Other payables and accruals	26	**30,911**	32,743	95,165
Total current liabilities		**30,911**	32,743	95,165
NET CURRENT ASSETS		**559,414**	738,131	822,706
TOTAL ASSETS LESS CURRENT LIABILITIES		**730,734**	909,451	994,026
Net assets		**730,734**	909,451	994,026
EQUITY				
Issued capital	32	**86,866**	92,066	92,066
Reserves	33(b)	**643,868**	790,709	846,754
Proposed final dividend	12	**–**	26,676	55,206
Total equity		**730,734**	909,451	994,026

Yan Weibin
Director

Chan Yuk Tong
Independent Non-executive Director

1. CORPORATE INFORMATION

Ausnutria Dairy Corporation Ltd. (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 in Mainland China, at Floor 9, XinDaXin Building, No. 168, HuangXing Road (M), Changsha City, Hunan Province; in Hong Kong, at Room 2101, Beautiful Group Tower, 77 Connaught Road Central, Central; and in the Netherlands, at Burgemeester Falkenaweg 58-1 (8442LE), Heerenveen. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 October 2009. The Company and its subsidiaries are hereinafter collectively referred to as the Group.

On 30 June 2011, the Group and Dutch Dairy Investments B.V. ("DDI") entered into an agreement (the "Subscription Agreement"), pursuant to which the Group subscribed approximately 19.44% of the enlarged equity interests in Ausnutria Hyproca B.V. (formerly Hyproca Dairy Group B.V.) ("Ausnutria Hyproca", the company and its subsidiaries collectively referred to as the "Ausnutria Hyproca Group") (the "Subscription"). The transaction was completed on 3 July 2011. On 19 July 2011, the Group and DDI entered into an acquisition agreement (the "Acquisition Agreement"), pursuant to which the Group acquired approximately 31.56% of the equity interests in Ausnutria Hyproca from DDI (the "Acquisition"). The transaction was approved by the shareholders at the extraordinary general meeting of the Company and completed on 14 October 2011 and 17 October 2011, respectively. Taking into account the approximately 19.44% of the enlarged equity interests acquired on 3 July 2011, the Group collectively held a total of 51% of the equity interests in Ausnutria Hyproca and Ausnutria Hyproca became an indirect non-wholly owned subsidiary of the Company with effect from 17 October 2011.

The Company acts as an investment holding company of the Group. The Group is principally engaged in the production, marketing and distribution of paediatric nutrition products in the People's Republic of China (the "PRC"). As a result of the Subscription and the Acquisition, the Group is now also engaged in the dairy industry in the Netherlands with activities ranging from research and development, milk collection, processing, production, packaging, marketing and sales of dairy products to customers in the Netherlands and other overseas countries.

2.1 BASIS OF PREPARATION

During the audit in respect of the financial statements for the year ended 31 December 2011, certain unresolved issues (the "Unresolved Issues") relating to Ausnutria Dairy (China) Co., Ltd. ("Ausnutria China", a major indirect wholly-owned subsidiary of the Company), were reported by Ernst & Young, the auditors of the Company, to the board of the directors of the Company (the "Board") on 29 March 2012. On the same date, in the interest of the Company and its shareholders as a whole, the Company then applied for the suspension of trading of its shares on the Stock Exchange. Details in relation to the Unresolved Issues are set out in the announcement of the Company dated 28 June 2013.

2.1 BASIS OF PREPARATION (continued)

On 29 March 2012, a special review committee (the "SRC") comprising two of the independent non-executive directors of the Company, namely Mr. Qiu Weifa and Mr. Chan Yuk Tong, was established by the Board to conduct a review in relation to the Unresolved Issues. The SRC, upon its establishment, requested certain management of the Group, consisting of the chief financial officer of the Company and several senior managers of Ausnutria China (the "Management") who were not associated in any way with the Unresolved Issues to carry out a review to, among other things, quantify the financial impact in relation to the Unresolved Issues. Based on its review, the Management informed the SRC prior to the commencement of the PwC Review (as defined herein below) that certain sales of Ausnutria China amounting to RMB123 million (equivalent to approximately RMB143.5 million (inclusive of 17% valued-added-tax in the PRC (the "VAT"))) were recorded in the accounting system of Ausnutria China in December 2011 (the "Questionable December Transactions"), but the goods had not yet been delivered to its distributors on or before 31 December 2011 and accordingly, should not be recognised as sales of Ausnutria China in December 2011.

Following the Unresolved Issues raised by Ernst & Young and the establishment of the SRC, King & Wood Mallesons ("KWM") were engaged by the SRC as the legal advisors to the SRC and the Board in relation to the Unresolved Issues. In turn, PricewaterhouseCoopers Limited ("PwC"), an independent professional adviser, was appointed by KWM on behalf of the SRC to conduct a forensic review (the "PwC Review") on the Unresolved Issues. PwC issued its report in relation to its findings on the PwC Review to KWM, which was copied to the SRC, on 12 August 2013.

The key findings of the PwC Review are:

(a) the Questionable December Transactions (in respect of which the relevant underlying documents relating to a sample of the Questionable December Transactions appeared to be different from a sample of transactions of Ausnutria China for other months in 2011, and for which the goods involved had not been delivered to the distributors on or before 31 December 2011), should not be recognised as sales of Ausnutria China in December 2011;

(b) the integrity of Ausnutria China's old sales order system (the "Old Sales Order System", which had ceased to be used since October 2011 but recorded the Questionable December Transactions) is questionable, as the data in which relating to the Questionable December Transactions had been manually altered. The integrity of the warehouse barcode system of Ausnutria China is also questionable as the data in the warehouse barcode system for December 2011 had been manually altered to match the data previously provided by the management of Ausnutria China to Ernst & Young; and

(c) there were discrepancies between the accounting records of monthly quantity of goods delivered kept by the accounting department of Ausnutria China (the "Accounting Records") and information provided by the independent logistic service provider engaged by Ausnutria China involved in the Unresolved Issues during January to November 2011 as well as discrepancies in the inventory movement records between the Accounting Records and Ausnutria China's warehouse records (the "Warehouse Records") in 2011.

2.1 BASIS OF PREPARATION (continued)

In addition to the Questionable December Transactions, PwC also identified other questionable transactions of Ausnutria China amounting to approximately RMB11.5 million (inclusive of 17% VAT) for November 2011 (the "Questionable November Transactions") and approximately RMB39.6 million (inclusive of 17% VAT) for the period from January to November in 2011 with a similar pattern to those of the Questionable December Transactions.

Further details in relation to the PwC Review are set out in the announcement of the Company on 18 August 2013.

Based on the results of the PwC Review and certain responses provided by the Management and the SRC, the Board found that certain employees in the accounting department, the information technology department, the sales department and the logistics department of Ausnutria China were involved in fabricating various delivery documents, including sales orders, delivery notes, the logistic service provider's delivery notes and goods receipts acknowledged by customers, which were presented to Ernst & Young for examination during the audit with a view to matching the financial data previously provided by certain employees of Ausnutria China to Ernst & Young and creating the impression that the Questionable November Transactions, the Questionable December Transactions and certain other questionable sales transactions during the period from January to November in 2011 had taken place before the relevant underlying goods were actually delivered. Based on the results of the PwC Review and other work performed by the Management and the SRC, the Board concluded that errors relating to the early recognition of revenue had occurred since October 2009 and extended into 2010 and 2011. The Company's previous published consolidated audited financial statements prior to 1 October 2009, including the financial information shown in the track record periods in the Company's prospectus dated 24 September 2009, however remained correct.

The SRC and the Board directed the Company to adopt measures to address the Unresolved Issues raised by Ernst & Young as well as the findings of the PwC Review. These measures have included the restructuring of the Board and the senior management of Ausnutria China, and the implementation of recommendations from an external professional internal control consultant on control weaknesses in the internal control(s) and information technology system(s) of the Company and Ausnutria China that may have given rise to the Unresolved Issues.

Due to the fact that (i) the former chief financial officer of Ausnutria China and a number of employees who might have been involved in the Unresolved Issues had left Ausnutria China and the information gathered from other employees did not appear to be conclusive; (ii) some of the Accounting Records, the Warehouse Records and certain other supporting documents have been manually altered and/or forged; and (iii) the lack of complete and accurate records of Ausnutria China, as the hard disk which hosted the Old Sales Order System had been inoperable since March 2012 and there was no backed up data available, the SRC and the Board had doubts over the completeness and accuracy of the accounting records in relation to certain sales transactions and the corresponding cost of sales of Ausnutria China for the year ended 31 December 2011 and certain periods prior to that date (as mentioned above) and, accordingly, the related trade receivables and inventories as at 31 December 2011 and the reporting period dates of certain other periods prior to 31 December 2011(as mentioned above).

2.1 BASIS OF PREPARATION (continued)

The SRC and the Board noted that each of the staff in the sales accounting department（營銷財務部）of Ausnutria China had kept an order book for the distributors that he/she has been responsible for since around 2005 (the "Order Books"). The Order Books were prepared to keep track of the sales order status of and the cash receipts from Ausnutria China's distributors.

In view of the abovementioned doubts over the completeness and accuracy of the accounting records, as the Order Books are the best available alternative information that the SRC and the Board can reasonably rely on, the Management has used the information maintained by the sales accounting department in the Order Books to summarise all the orders and cash receipt information and compared them to the financial statements of Ausnutria China from January 2006 to December 2011. Certain additional procedures were also carried out by the Management, including but not limited to the confirmation and reconciliation of balances with the distributors as at 30 June 2013, certain roll-back procedures based on the confirmed balances of trade receivables and reconciling the cash receipts as set out in the Order Books with Ausnutria China's bank statements for the relevant years.

Based on the results of the PwC Review and the information available at the date of approval of these consolidated financial statements, the SRC and the Board believe that the Questionable December Transactions, the Questionable November Transactions and other questionable sales transactions, if any, during the period from January to November in 2011 should have been excluded from this preparation of the consolidated financial statements of the Group for the year ended 31 December 2011 and all significant adjustments in relation to the Unresolved Issues have been put through to adjust the consolidated financial statements for the six month period ended 31 December 2009 (and therefore for the year ended 31 December 2009), and for the year ended 31 December 2010 so as to reflect the errors due to the early recognition of revenue which had occurred since October 2009, the details of such prior year adjustments are set out in note 2.5 to the consolidated financial statements.

The Board would like to draw to the attention of the shareholders that while there is no impact of the Unresolved Issues on the issued consolidated financial statements for the track record periods ended 30 June 2009 included in the Company's prospectus dated 24 September 2009, the previously issued consolidated financial statements for the years ended 31 December 2009 and 2010 cannot be relied on. In order to give the shareholders a clear view on the adjustments to these previous years, along with the restated 2010 consolidated financial statements, the Board decided to additionally disclose the full set of the restated 2009 consolidated financial statements as additional comparative information to the 2011 consolidated financial statements.

2.2 BASIS OF PRESENTATION

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 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.

2.2 BASIS OF PRESENTATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011.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 of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

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.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRSs 2010	Amendments to a number of IFRSs issued in May 2010

Other than as further explained below regarding the impact of IAS 24 (Revised), and amendments to IFRS 3, IAS 1 and IAS 27 included in *Improvements to IFRSs 2010*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The principal effects of adopting these IFRSs are as follows:

(a) IAS 24 (Revised) Related Party Disclosures

IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any significant impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 39 to the consolidated financial statements.

(b) *Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- IFRS 3 *Business Combinations:* The amendment clarifies that the amendments to IFRS 7, IAS 32 and IAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- IAS 1 *Presentation of Financial Statements:* The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(b) (continued)

- IAS 27 *Consolidated and Separate Financial Statements:* The amendment clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if IAS 27 is applied earlier.

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective in these financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*[4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
IFRS 9	*Financial Instruments*[6]
IFRS 10	*Consolidated Financial Statements*[4]
IFRS 11	*Joint Arrangements*[4]
IFRS 12	*Disclosure of Interests in Other Entities*[4]
IFRS 10, IFRS 11, and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance*[4]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities*[5]
IFRS 13	*Fair Value Measurement*[4]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
IAS 19 Amendments	*Employee Benefits*[4]

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IAS 27 (Revised)	*Separate Financial Statements*[4]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[4]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
IAS 36 Amendments	Amendments to IAS36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*[5]
IAS 39 Amendments	Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*[5]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]
IFRIC 21	*Levies*[5]
Annual Improvements 2009 – 2011 Cycle	Amendments to a number of IFRSs issued in May 2012[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IFRS 7 Amendments – *offsetting Financial Assets and Financial Liabilities* require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group expects to adopt the amendments from 1 January 2013.

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation – Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC 12. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in IAS 27 *Consolidated and Separate Financial Statements,* IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In June 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or SIC 12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The amendments to IFRS 10 issued in October 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (Revised). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12 and the consequential amendments to IAS 27 (Revised), IAS 28 (Revised), and the subsequent amendments to these standards issued in June and October 2012 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

The IAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

The IAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in SIC 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Group expects to adopt the IAS 12 Amendments from 1 January 2012.

IAS 19 Amendments include a number of amendments that range from fundamental changes to simple clarifications and re-wording. The amendments introduce significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt IAS 19 Amendments from 1 January 2013.

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

The *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) IAS 1 *Presentation of Financial Statements:* Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) IAS 32 *Financial Instruments: Presentation:* Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

2.5 CORRECTION OF PRIOR YEARS' ERRORS

As explained in note 2.1 to the financial statements, in certain prior periods, Ausnutria China had recorded certain of its sales in advance of their delivery to customers. Such errors occurred from October 2009. The comparative consolidated financial statements of the Group for the years ended 31 December 2009 and 2010 have been restated to correct the errors based on the Management's best estimation. The effect of the restatement on those financial statements is summarised below:

	Effect	
	For the year ended 31 December 2010	For the year ended 31 December 2009
	RMB'000	RMB'000
Decrease in revenue	(65,443)	(78,193)
Decrease in cost of sales	(11,079)	(38,306)
Decrease in profit before tax	(54,364)	(39,887)
Decrease in profit for the year	(50,217)	(39,887)
Restated earnings per share attributable to ordinary equity holders of the parent – basic and diluted (RMB)	5.74 cents	16.61 cents

	As at 31 December 2010	As at 31 December 2009
	RMB'000	RMB'000
Increase in inventories	49,385	38,306
Decrease in trade and bills receivables	(61,918)	(9,300)
Increase in prepayments, deposits and other receivables	7,398	–
Increase in tax recoverable	4,148	–
Increase in deposits received, other payables and accruals	89,117	68,893

The directors consider that the errors did not occur prior to 30 June 2009 and, accordingly, no restatements on those financial statements that were issued for the periods/years ended on or before prior to 30 June 2009 is made.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating polices the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's statement of comprehensive income on the extent of dividends received and receivable. The Company's investments in subsidiaries that are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated statement of comprehensive income and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included at as part of the Group's investments in associated and is not individually tested for impairment.

The results of associates are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investments in associates are tested as non-current assets and are stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, 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 groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows 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. An impairment loss is charged to the statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired assets.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of comprehensive income in the period in which it arises.

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation them accordingly.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	25 years
Machinery	5 – 10 years
Motor vehicles	5 – 10 years
Office equipment	5 – 10 years
Leasehold improvements	8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and methods of depreciation are reviewed and adjusted if at least appropriate, at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of comprehensive income so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequent recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as loans and receivables and held-to-maturity investments. 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, 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.

Subsequent measurement

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

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in finance costs for loans and in other expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income in other expenses.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or

- The Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial organisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists 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 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 (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). 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 and the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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. Impairment losses on these assets are not reversed.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or loans and other borrowings. 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 loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing bank loans and other borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities at fair value through profit or loss (continued)

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

Derecognition of financial liabilities

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 a recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis; and option pricing models.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of interest rate swaps is determined using the rates quoted by the Group's bankers to terminate the contracts at the end of the reporting period.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of comprehensive income, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of comprehensive income.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all 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 taxable temporary differences, except:

- When 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 and associates when 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.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- When 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 and associates, deferred tax assets are only recognised 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 each reporting date 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 sufficient taxable profit will be available allow all or part of the deferred tax asset to be recovered.

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

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

Government grants

Government grants are recognised at their 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 as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of comprehensive income by way of a reduced depreciation charge.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, on the following bases:

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(ii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme in Hong Kong (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 20% of its payroll costs to the central pension scheme. The contributions are charged to the statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Defined benefit plan

The Group operates a defined benefit pension plan which requires contributions to be made to a separately administered fund. The benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for the plan at the end of the previous period exceed 10% of the higher of the defined benefit obligation and the fair value of the plan assets at that date. These gains or losses are recognised over the expected average remaining service periods of the employees participating in the plan.

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

The defined benefit asset or liability comprises the present value of the defined benefit obligation less unrecognised past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled.

Plan assets are assets that are held by a long term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group nor can they be paid directly to the Group. Fair value is based on market price information and, in the case of quoted securities, it is the published bid price.

The value of any defined benefit asset recognised is restricted to the sum of any unrecognised past service costs not yet recognised and the present value of any economic benefit available in the form of refunds from the plan or reductions in the future contributions to the plan.

Customer loyalty program

The Group operates a customer loyalty program which allows customers to earn points when they purchase products of the Group. The points can then be redeemed for free products, subject to a minimum number of points being obtained. The consideration received or receivable from the products sold is allocated between the points earned by the customer loyalty program members and the other components of the sales transactions. The amount allocated to the points earned by the customer loyalty program members is deferred until the points are redeemed when the Group fulfils its obligations to supply products or when the points expire.

2.6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation 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. Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on the settlement or translation of monetary items are recognised in the consolidated statement of comprehensive income. 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 is determined.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Finance leases – Group as lessee

The Group has entered into certain lease agreements on production machinery. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it obtains substantially all the rewards and risks of ownership of assets which are leased on finance leases.

Classification of held-to-maturity investments

The Group determines whether an investment qualifies as a held-to-maturity investment and has developed criteria in making that judgement. A held-to-maturity investment is a non-derivative financial asset with fixed or determinable payments and fixed maturity when the Group has the positive intention and ability to hold to maturity. Judgement is made on an individual investment basis to determine whether the Group has the intention and the ability to hold the investment to maturity.

Estimates uncertainly

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

Impairment of goodwill

The Group determines whether goodwill is impairment at least on an annual basis. This requires an estimation of the value in use of cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2011 was RMB82,891,000 (2010 and 2009: Nil). Further details are set out in note 16 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimates uncertainly (continued)

Impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the trade receivables and impairment loss in the period in which such estimate has been changed. No impairment loss was recognised as at 31 December 2011 (2010 and 2009: Nil). Further details are contained in note 21.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward 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 carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in note 30.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residues values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances. The depreciation provided for the year ended 31 December 2011 was RMB9,849,000 (2010: RMB2,979,000, 2009: RMB2,254,000). Further details are contained in note 14.

Defined benefit plans

The Group operates two defined benefit plans. Pension costs for defined benefit plans are assessed using the projected unit credit method in accordance with IAS 19 Employee Benefits. Under this method, the cost of providing pensions is charged to profit or loss so as to spread the regular cost over the future service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the end of the reporting period based on high quality corporate bonds with currency and term similar to the estimated term of benefit obligations. In calculating the Group's obligations in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligations and the fair value of plan assets, that portion is recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimates uncertainly (continued)

Defined benefit plans (continued)

Management has appointed actuaries to carry out a full valuation of these pension plans to determine the pension obligations that are required to be disclosed and accounted for in the accounts in accordance with the IFRS requirements.

The actuaries use assumptions and estimates in determining the fair value of the defined benefit retirement plans and evaluate and update these assumptions on an annual basis. Judgement is required to determine the principal actuarial assumptions to determine the present value of defined benefit obligations and service costs. Changes to the principal actuarial assumptions can significantly affect the present value of plan obligations and service costs in future periods.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments in 2011 as follows:

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

(b) the Ausnutria Hyproca segment comprises the manufacture and sales of dairy products in the Netherlands on a subcontract basis for its customers as well as for the sales of its own-branded products in the PRC and other overseas countries.

In 2010 and 2009, the Group only had a single operating and reportable segment, which was the Ausnutria segment. During 2010 and 2009, all the Group's major operations, customers and non-current assets were located in the PRC.

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 from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations 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, time deposits, held-to-maturity investments, and other unallocated head office and corporate assets as these assets are managed on a group basis.

4. OPERATING SEGMENT INFORMATION (continued)

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

	Year ended 31 December 2011		
	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	417,310	211,904	629,214
Revenue from operations	417,310	211,904	629,214
Segment results	57,986	18,023	76,009
Reconciliation:			
Interest income			5,002
Finance costs			(1,436)
Corporate and other unallocated expenses			(7,688)
Profit before tax			71,887
Segment assets	343,471	552,390	895,861
Reconciliation:			
Elimination of intersegment receivables			(27,804)
Corporate and other unallocated assets			669,433
Total assets			1,537,490
Segment liabilities	264,996	198,237	463,233
Reconciliation			
Elimination of intersegment payables			(27,756)
Corporate and other unallocated liabilities			91,386
Total liabilities			526,863
Other segment information			
Share of profits of associates	5,006	–	5,006
Impairment losses recognised in the statement of comprehensive income	1,307	–	1,307
Investments in associates	1,730	–	1,730
Depreciation and amortisation	5,251	5,468	10,719
Capital expenditure*	15,992	8,350	24,342

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2011 RMB'000
The PRC	441,051
The Netherlands	148,658
Others	39,505
	629,214

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

(b) Non-current assets

	2011 RMB'000
The PRC	78,234
The Netherlands	291,510
	369,744

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

Information about major customers

During the year, there was no revenue from a single external customer which accounted for 10% or more of the Group's total revenue (2010 and 2009: 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 the Group's revenue, other income and gains is as follows:

	Notes	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
Revenue				
Sale of goods		**629,214**	513,890	545,584
Other income and gains				
Interest income		**5,002**	3,892	4,194
Interest income on held-to-maturity investments		**10,300**	9,038	–
Government grants	(i)	**1,681**	4,668	–
Insurance compensation income	(ii)	**8,018**	–	–
Others		**975**	3,922	2,704
Total other income and gains		**25,976**	21,520	6,898

(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.

(ii) During the year ended 31 December 2011, there was an accident out-broken in one of the production facilities of the Ausnutria Hyproca Group located in the Netherlands. The Ausnutria Hyproca Group received a compensation income from the insurance company to cover all its losses incurred as a result of the explosion.

As disclosed in note 2.1, since the relevant books and records are incomplete, no representation is made by the Board as to the completeness, occurrence and accuracy of the revenue for the year ended 31 December 2011.

6. PROFIT BEFORE TAX

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

	Notes	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
Cost of inventories sold		408,435	250,710	277,224
Write-down of inventories to net realisable value		1,307	–	–
Cost of sales		409,742	250,710	277,224
Depreciation	14	9,849	2,979	2,254
Amortisation of prepaid land lease payments	15	57	57	57
Amortisation of other intangible assets	17	813	118	67
Minimum lease payments under operating leases:				
Buildings		1,544	402	420
Loss on disposal of property, plant and equipement		–	–	23
Write-off of trade receivables*		–	4,956	–
Foreign exchange differences, net*		9,541	15,355	18
Transaction costs of the Subscription and Acquisition*	34	7,257	–	–
Auditors' remuneration		4,382	1,350	900
Advertising and promotion expenses		78,264	134,514	65,908
Employee benefit expenses (including directors' remuneration (note 8)):				
Wages, salaries and staff welfare		52,779	29,784	13,306
Pension scheme contributions**		4,454	1,349	923
		57,233	31,133	14,229

* The write-off of trade receivables, transaction costs of the Subscription and Acquisition and foreign exchange differences are included in other expenses in the consolidated statement of comprehensive income.

** At 31 December 2011, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2010 and 2009: Nil).

As disclosed in note 2.1, since the relevant books and records are incomplete, no representation is made by the Board as to the completeness, occurrence and accuracy of the cost of sales for the year ended 31 December 2011.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group		
	2011 RMB'000	2010 RMB'000	2009 RMB'000
Interest on bank loans, overdrafts and other loans	1,313	1,369	4,184
Interest on finance leases	13	–	–
Total interest expense on financial liabilities not at fair value through profit or loss	1,326	1,369	4,184
Net fair value loss of interest rate swaps (note 27)	110	–	–
	1,436	1,369	4,184

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group		
	2011 RMB'000	2010 RMB'000	2009 RMB'000
Fees	631	660	167
Other emoluments:			
Salaries, allowances and benefits in kind	771	772	536
Pension scheme contributions	20	14	5
	791	786	541
	1,422	1,446	708

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2011 RMB'000	2010 RMB'000	2009 RMB'000
Qiu Weifa	83	87	22
Jason Wan	83	87	22
Chan Yuk Tong	133	138	35
	299	312	79

There were no other emoluments payable to the independent non-executive directors during the year (2010 and 2009: Nil).

(b) Executive directors

	Notes	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2011					
Wu Yueshi	(i)	83	–	–	83
Chen Yuanrong	(ii)	83	511	10	604
Yan Weibin	(iii)	83	–	–	83
Ng Siu Hung		83	260	10	353
		332	771	20	1,123

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors (continued)

	Notes	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2010					
Wu Yueshi	(i)	87	–	–	87
Chen Yuanrong	(ii)	87	512	13	612
Yan Weibin	(iii)	87	–	–	87
Ng Siu Hung		87	260	1	348
		348	772	14	1,134
2009					
Wu Yueshi	(i)	22	–	–	22
Chen Yuanrong	(ii)	22	536	5	563
Yan Weibin	(iii)	22	–	–	22
Ng Siu Hung		22	–	–	22
		88	536	5	629

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2010 and 2009: Nil).

Notes:

(i) Mr. Wu Yueshi ("Mr. Wu") has resigned as an executive director and chairman of the Board with effect from 7 June 2013. Upon his resignation, Mr. Wu also ceased to be a member and the chairman of the Nomination Committee of the Company and a member of the Remuneration Committee of the Company with effect from 7 June 2013.

(ii) Mr. Chen Yuanrong ("Mr. Chen") was also the chief executive of the Company during 2010 and 2011. Mr Chen has resigned as an executive director and chief executive officer of the Company with effect from 7 June 2013.

(iii) Mr. Yan Weibin, the executive director, has been elected as the chairman of the Board, and appointed as a member and the chairman of the Nomination Committee of the Company and a member of the Remuneration Committee of the Company with effect from 7 June 2013.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2010 and 2009: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2010 and 2009: four) non-director, highest paid employees for the year are as follows:

	Group		
	2011	2010	2009
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**1,854**	1,872	776
Pension scheme contributions	**35**	63	20
Total	**1,889**	1,935	796

The number of non-director, highest paid employees whose remuneration fell with the following band is as follows:

	Number of employees		
	2011	2010	2009
Nil to HK$1,000,000	**4**	4	4

10. 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 (2010: Nil, 2009: RMB424,000).

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 ("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 the taxable profits exceeding EUR200,000.

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

10. INCOME TAX (continued)

Ausnutria China was designated as a High-tech Enterprise from 2010, and was granted a preferential CIT tax rate of 15% for the three years ended 31 December 2012.

Group

	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
Current charge for the year			
The Netherlands	3,497	–	–
Hong Kong	–	–	424
Mainland China	16,204	10,894	25,864
Deferred (note 30)	1,752	(4,017)	–
Total tax charge for the year	21,453	6,877	26,288

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

Group – 2011

	Hong Kong RMB'000	Hong Kong %	Netherlands RMB'000	Netherlands %	Mainland China RMB'000	Mainland China %	Others RMB'000	Others %	Total RMB'000	Total %
Profit/(loss) before tax	(313)		27,645		56,386		(11,831)		71,887	
Income tax at the statutory income tax rate	(52)	16.5	6,911	25.0	14,097	25.0	–	–	20,956	29.2
Tax effects on preferential tax rates	–	–	–	–	(5,634)	(10.0)	–	–	(5,634)	(7.8)
Non-deductible items and others, net	–	–	774	2.8	1,225	2.1	–	–	1,999	2.8
Over payment of CIT in relation to the Unresolved Issues	–	–	–	–	2,225	3.9	–	–	2,225	3.0
Profits attributable to associates	–	–	(1,191)	(4.3)	(64)	(0.1)	–	–	(1,255)	(1.7)
Gain on remeasurement of interests upon acquisition	–	–	(3,531)	(12.7)	–	–	–	–	(3,531)	(4.9)
Income not subject to tax	–	–	(595)	(2.2)	(930)	(1.6)	–	–	(1,525)	(2.1)
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiary	–	–	–	–	6,183	11.0	–	–	6,183	8.6
Tax losses not recognised	52	(16.5)	1,983	7.1	–	–	–	–	2,035	2.7
Tax charged at the Group's effective rate	–	–	4,351	15.7	17,102	30.3	–	–	21,453	29.8

10. INCOME TAX (continued)

Group – 2010 (Restated)

	Hong Kong RMB'000	%	Mainland China RMB'000	%	Total RMB'000	%
Profit/(loss) before tax	(2,923)		69,750		66,827	
Income tax at the statutory income tax rate	(482)	16.5	17,438	25.0	16,956	25.4
Tax effects on preferential tax rates	–	–	(8,719)	(12.5)	(8,719)	(13.0)
Tax credit received	–	–	(5,692)	(8.2)	(5,692)	(8.5)
Non-deductible items and others, net	–	–	1,871	2.7	1,871	2.7
Over payment of CIT in relation to the Unresolved Issues	–	–	2,649	3.8	2,649	4.0
Adjustments to deferred tax assets with respect to the change in the applicable tax rate	–	–	(670)	(1.0)	(670)	(1.0)
Tax losses not recognized	482	(16.5)	–	–	482	0.7
Tax charged at the Group's effective rate	–	–	6,877	9.8	6,877	10.3

Group – 2009 (Restated)

	Hong Kong RMB'000	%	Mainland China RMB'000	%	Total RMB'000	%
Profit before tax	2,568		165,953		168,521	
Income tax at the statutory income tax rate	424	16.5	41,488	25.0	41,912	24.9
Tax effects on preferential tax rates	–	–	(20,744)	(12.5)	(20,744)	(12.3)
Expenses not deductible for tax	–	–	134	0.1	134	0.1
Over payment of CIT in relation to the Unresolved Issues	–	–	4,986	3.0	4,986	2.9
Tax charged at the Group's effective rate	424	16.5	25,864	15.6	26,288	15.6

As disclosed in note 2.1, since the relevant books and records are incomplete, no representation is made by the Board as to the completeness, occurrence and accuracy of the income tax for the year ended 31 December 2011.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a loss of RMB31,530,000 (2010: a loss of RMB29,369,000, 2009: a loss of RMB409,000) which has been dealt with in the financial statements of the Company (note 33(b)).

12. DIVIDENDS

	2011 RMB'000	2010 RMB'000	2009 RMB'000
Proposed final – Nil (2010: HK$3 cents, 2009: HK$6 cents) per ordinary share	–	26,676	55,206

13. 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 995,302,438 (2010: 1,045,000,000, 2009: 856,191,781) in issue during the year.

Earnings

	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	44,275	59,950	142,233

Shares

	2011	2010	2009
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	995,302,438	1,045,000,000	856,191,781

No adjustment has been made to the basic earnings per share amounts presented for the three years ended 31 December 2011, 2010 and 2009 in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during those years.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

As disclosed in note 2.1, since the relevant books and records are incomplete, no representation is made by the Board as to the completeness, occurrence and accuracy of the earnings per share attributable to ordinary equity holders of the parent for the year ended 31 December 2011.

14. PROPERTY, PLANT AND EQUIPMENT

	Group						
	Land and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Construction in process RMB'000	Total RMB'000
31 December 2011							
At 31 December 2010 and 1 January 2011:							
Cost	18,896	12,294	4,525	1,143	10,213	–	47,071
Accumulated depreciation and impairment	(2,491)	(3,937)	(1,531)	(899)	(52)	–	(8,910)
Net carrying amount	16,405	8,357	2,994	244	10,161	–	38,161
At 1 January 2011, net of accumulated depreciation and impairment	16,405	8,357	2,994	244	10,161	–	38,161
Additions	23,121	9,912	1,060	2,595	933	1,112	38,733
Acquisition of subsidiaries (note 34)	110,601	76,125	–	8,142	–	4,888	199,756
Depreciation provided during the year	(2,105)	(5,160)	(886)	(526)	(1,172)	–	(9,849)
Exchange realignment	(8,299)	(5,864)	–	(609)	–	(410)	(15,182)
At 31 December 2011, net of accumulated depreciation and impairment	139,723	83,370	3,168	9,846	9,922	5,590	251,619
At 31 December 2011:							
Cost or valuation	144,274	92,352	5,585	11,247	11,146	5,590	270,194
Accumulated depreciation and impairment	(4,551)	(8,982)	(2,417)	(1,401)	(1,224)	–	(18,575)
Net carrying amount	139,723	83,370	3,168	9,846	9,922	5,590	251,619

The net carrying amount of the Group's fixed assets held under finance lease at 31 December 2011 included machinery that were attributed to the Ausnutria Hyproca Group amounting to EUR428,000 (equivalent to approximately RMB3,494,000; 2010 and 2009: Nil).

14. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2011, certain of the Group's land and buildings, and plant and equipment that were attributed to the Ausnutria Hyproca Group and located in the Netherlands with net carrying amounts of EUR8,316,000 (equivalent to approximately RMB67,880,000; 2010 and 2009: Nil) and EUR9,448,000 (equivalent to approximately RMB77,121,000; 2010 and 2009: Nil), respectively, were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 28(b)).

	Group					
	Land and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2010						
At 31 December 2009 and 1 January 2010:						
Cost	17,681	12,132	2,038	851	163	32,865
Accumulated depreciation and impairment	(1,633)	(2,536)	(923)	(792)	(47)	(5,931)
Net carrying amount	16,048	9,596	1,115	59	116	26,934
At 1 January 2010, net of accumulated depreciation and impairment	16,048	9,596	1,115	59	116	26,934
Additions	1,215	162	2,487	292	10,050	14,206
Depreciation provided during the year	(858)	(1,401)	(608)	(107)	(5)	(2,979)
At 31 December 2010, net of accumulated depreciation and impairment	16,405	8,357	2,994	244	10,161	38,161
At 31 December 2010:						
Cost	18,896	12,294	4,525	1,143	10,213	47,071
Accumulated depreciation and impairment	(2,491)	(3,937)	(1,531)	(899)	(52)	(8,910)
Net carrying amount	16,405	8,357	2,994	244	10,161	38,161

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Group					
	Land and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
31 December 2009						
At 1 January 2009:						
Cost	17,425	9,556	2,038	929	163	30,111
Accumulated depreciation	(808)	(1,636)	(563)	(628)	(42)	(3,677)
Net carrying amount	16,617	7,920	1,475	301	121	26,434
At 1 January 2009, net of accumulated depreciation	16,617	7,920	1,475	301	121	26,434
Additions	256	2,576	–	209	–	3,041
Disposal	–	–	–	(287)	–	(287)
Depreciation provided during the year	(825)	(900)	(360)	(164)	(5)	(2,254)
At 31 December 2009, net of accumulated depreciation	16,048	9,596	1,115	59	116	26,934
At 31 December 2009:						
Cost	17,681	12,132	2,038	851	163	32,865
Accumulated depreciation	(1,633)	(2,536)	(923)	(792)	(47)	(5,931)
Net carrying amount	16,048	9,596	1,115	59	116	26,934

15. PREPAID LAND LEASE PAYMENTS

	Group		
	2011 RMB'000	2010 RMB'000	2009 RMB'000
Carrying amount at 1 January	2,313	2,370	2,427
Recognised during the year	(57)	(57)	(57)
Carrying amount at 31 December	2,256	2,313	2,370
Current portion included in prepayments, deposits and other receivables	(57)	(57)	(57)
Non-current portion	2,199	2,256	2,313

The leasehold land is situated in the PRC and is held under a long term lease.

16. GOODWILL

	Group 2011 RMB'000
Acquisition of subsidiaries (note 34)	92,909
Exchange realignment	(10,018)
Cost and net carrying amount at 31 December 2011	82,891
At 31 December 2011:	
Cost	82,891
Accumulated impairment	–
Net carrying amount	82,891

16. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the product cash-generating unit for impairment testing, which includes four subsidiaries, namely Hyproca Dairy B.V. ("**Hyproca Dairy**"), Lypack Leeuwarden B.V. (formerly known as Lypack B.V.) ("**Lypack**"), Hyproca Nutrition B.V. ("**Hyproca Nutrition**") and Lyempf Kampen B.V. (formerly known as Hyproca Lyempf B.V.) ("**Hyproca Lyempf**").

Product cash-generating unit

The recoverable amount of the product cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 11%. The growth rate used to extrapolate the cash flows of the product unit beyond the five-year period is nil.

Assumptions were used in the value in use calculation of the product cash-generating unit for 31 December 2011. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rate – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

17. OTHER INTANGIBLE ASSETS

Group

	Non-patent technology RMB'000	Trademarks RMB'000	Software RMB'000	Milk collection right RMB'000	Others RMB'000	Total RMB'000
31 December 2011						
Cost at 1 January 2011, net of accumulated amortisation	315	258	1,282	–	–	1,855
Acquisition of subsidiaries (note 34)	77	191	1,722	21,299	–	23,289
Additions	–	166	8,502	–	49	8,717
Amortisation provided during the year	(70)	(57)	(172)	(514)	–	(813)
Exchange realignment	(6)	(16)	(131)	(1,588)	(2)	(1,743)
At 31 December 2011	316	542	11,203	19,197	47	31,305
At 31 December 2011:						
Cost	721	691	11,413	19,692	47	32,564
Accumulated amortisation	(405)	(149)	(210)	(495)	–	(1,259)
Net carrying amount	316	542	11,203	19,197	47	31,305

17. OTHER INTANGIBLE ASSETS (continued)

Group

	Non-patent technology RMB'000	Trademarks RMB'000	Software RMB'000	Total RMB'000
31 December 2010				
At 1 January 2010:				
Cost	500	173	–	673
Accumulated amortisation	(279)	(68)	–	(347)
Net carrying amount	221	105	–	326
Cost at 1 January 2010, net of accumulated amortisation	221	105	–	326
Additions	150	177	1,320	1,647
Amortisation provided during the year	(56)	(24)	(38)	(118)
At 31 December 2010	315	258	1,282	1,855
At 31 December 2010:				
Cost	650	350	1,320	2,320
Accumulated amortisation	(335)	(92)	(38)	(465)
Net carrying amount	315	258	1,282	1,855

17. OTHER INTANGIBLE ASSETS (continued)

Group

	Non-patent technology RMB'000	Trademarks RMB'000	Software RMB'000	Total RMB'000
31 December 2009				
At 1 January 2009:				
Cost	500	173	–	673
Accumulated amortisation	(229)	(51)	–	(280)
Net carrying amount	271	122	–	393
Cost at 1 January 2009, net of accumulated amortisation	271	122	–	393
Amortisation provided during the year	(50)	(17)	–	(67)
At 31 December 2009	221	105	–	326
At 31 December 2009:				
Cost	500	173	–	673
Accumulated amortisation	(279)	(68)	–	(347)
Net carrying amount	221	105	–	326

18. INVESTMENTS IN SUBSIDIARIES

	Company		
	2011 RMB'000	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	**171,320**	171,320	171,320

The amounts due from subsidiaries of RMB573,880,000 (2010: RMB388,467,000, 2009: Nil) (note 22) are unsecured, interest-free and have no fixed terms of repayment.

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary shares/ registered capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Spring Choice Limited	British Virgin Islands 22 April 2009	US$200	100	–	Investment holding
Ausnutria Dairy Co., Ltd.	Hong Kong 25 January 2007	HK$1	–	100	Investment holding
Ausnutria Australia Dairy Pty Ltd.	Australia 7 October 2003	AU$500,000	–	100	Investment holding
Ausnutria China*	The PRC/ Mainland China 15 September 2003	RMB68,633,832	–	100	Production, marketing and distribution of paediatric nutrition products in the PRC
Ausnutria Dairy (HK) Company Limited	Hong Kong 3 November 2008	HK$100	–	100	Marketing and distribution of paediatric nutrition products in Hong Kong
Ausnutria Dairy (Dutch) Coöperatief U.A	Netherlands 22 March 2011	EUR13,800,000	–	100	Investment holding
Hyproca Nutrition Co., Ltd.**	The PRC/ Mainland China 29 June 2011	RMB10,000,000	–	58.4#	Marketing and distribution of goat milk based nutrition products in the PRC
Hyproca Dairy***	Netherlands 23 December 1996	EUR18,200	–	51#	Manufacture of nutrition products
Lypack***	Netherlands 19 June 1997	EUR18,151	–	51#	Processing and packaging of nutrition products
Hyproca Nutrition***	Netherlands 31 January 2001	EUR725,358	–	51#	Marketing and distribution of goat milk based nutrition products
Hyproca Lyempf***	Netherlands 21 April 2011	EUR21,500	–	46.7#^	Manufacture of nutrition products

18. INVESTMENTS IN SUBSIDIARIES (continued)

* Wholly-foreign-owned enterprise.

** Sino-foreign equity joint venture.

*** The four companies are the principal operating subsidiaries of Ausnutria Hyproca which were acquired by the Group on 17 October 2011. Further details of the Acquisition are included in note 34 to the financial statements.

These are subsidiaries of Ausnutria Hyproca. Accordingly, they are accounted for as subsidiaries by virtue of the Company's control over them.

^ Subsequent to the end of the reporting period, on 19 October 2012, the Ausnutria Hyproca Group acquired the remaining 8.4% equity interests in Hyproca Lyempf and Hyproca Lyempf became a wholly-owned subsidiary of the Ausnutria Hyproca Group thereafter.

Except for Spring Choice Limited, all of the above principal subsidiaries are indirectly held by the Company.

The English names of Ausnutria China and Hyproca Nutrition Co. Ltd. are direct transliterations of their Chinese registered names.

None of the statutory audited financial statements of the above subsidiaries were audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network (2010 and 2009: None).

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. Giving details of all subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INVESTMENTS IN ASSOCIATES

	Group		
	2011	2010	2009
	RMB'000	RMB'000	RMB'000
Share of net assets	**1,730**	2,611	–

The Group's trade receivables balance with the associates is disclosed in note 21 to the financial statements. The amount due to associates included in other payables and accruals of RMB12,609,000 (2010: RMB5,839,000, 2009: Nil) are unsecured, interest free and are payable on demand.

19. INVESTMENTS IN ASSOCIATES (continued)

Particulars of the associates are as follows:

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Nuochengxinghe (Hunan) Trading Co., Ltd.	The PRC/ Mainland China 1 September 2010	RMB2,000,000	–	20	Wholesale, and retail of organic and paediatric products
Meiyougao (Guangzhou) Trading Co., Ltd.	The PRC/ Mainland China 8 September 2010	RMB1,000,000	–	20	Wholesale, and retail of organic and paediatric products
Meiyougao (Shenyang) Trading Co., Ltd.	The PRC/ Mainland China 11 November 2010	RMB1,000,000	–	20	Wholesale, and retail of organic and paediatric products
Hengai (Chongqing) Trading Co., Ltd.	The PRC/ Mainland China 1 November 2010	RMB100,000	–	20	Distribution of commodities, clothing and office products
Yijucai (Shijiazhuang) Trading Co., Ltd.	The PRC/ Mainland China 15 November 2010	RMB1,000,000	–	41	Wholesale and retail of packaging food
Nuochengxinghe (Wuhan) Trading Co., Ltd.	The PRC/ Mainland China 30 November 2010	RMB1,000,000	–	20	Wholesale and retail of organic and paediatric products
Kangyingrui (Yunnan) Trading Co., Ltd.	The PRC/ Mainland China 1 September 2010	RMB1,000,000	–	20	Wholesale, and retail of packaging food
Ainengda (Nanning) Trading Co., Ltd.	The PRC/ Mainland China 28 December 2010	RMB1,000,000	–	28.5	Wholesale, and retail of organic and paediatric products

19. INVESTMENTS IN ASSOCIATES (continued)

Name	Place and date of incorporation/ registration and place of operations	Registered capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Xiangning (Henan) Trading Co., Ltd.	The PRC/ Mainland China 12 December 2010	RMB1,000,000	–	20	Wholesale, and retail of organic and paediatric products
Maidian (Hangzhou) Trading Co., Ltd.	The PRC/ Mainland China 17 December 2010	RMB1,000,000	–	20	Wholesale, and retail of organic and paediatric products
Nuochengxinghe (Fuzhou) Trading Co., Ltd.	The PRC/ Mainland China 2 April 2011	RMB1,000,000	–	30	Wholesale, and retail of organic and paediatric products

None of the statutory audited financial statements of the above associates were audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network (2010 and 2009: None).

The English names of all the above associates are direct transliterations of their Chinese registered names.

The financial years of the above associates are coterminous with that of the Group. All the above associates have been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's associates extracted from their unaudited management accounts:

	2011 RMB'000	2010 RMB'000	2009 RMB'000
Assets	**36,473**	3,581	–
Liabilities	**25,212**	970	–
Revenue	**76,955**	3,551	–
Profit and loss	**1,234**	(104)	–

Subsequent to the end of the reporting period, all the above associates were either disposed of/deregistered or are in the course of deregistration.

20. INVENTORIES

	Group		
	2011	2010	2009
	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)
Raw materials	**142,297**	46,555	20,393
Finished goods	**116,347**	75,535	60,322
Others	**2,970**	4,258	2,378
Total	**261,614**	126,348	83,093

At 31 December 2011, certain of the Group's inventories that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR11,814,000 (equivalent to approximately RMB96,428,000, 2010 (restated) and 2009 (restated): Nil) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 28(b)).

As disclosed in note 2.1, since the relevant books and records are incomplete, no representation is made by the Board as to the completeness, existence and accuracy of the inventories at 31 December 2011.

21. TRADE AND BILLS RECEIVABLES

	Group		
	2011	2010	2009
	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)
Trade receivables	**119,818**	27,632	8,747
Bills receivable	**57,974**	31,413	–
Total	**177,792**	59,045	8,747

The Group normally allows a credit period form one month to 12 months (2010 (restated): 12 months, 2009 (restated): 3 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.

21. TRADE AND BILLS RECEIVABLES (continued)

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

	Group		
	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
Within 3 months	113,622	23,214	6,772
3 to 6 months	3,591	473	291
6 months to 1 year	2,333	3,922	1,684
Over 1 year	272	23	–
Total	119,818	27,632	8,747

There was no provision for impairment as of 31 December 2011 (2010 (as restated) and 2009 (as restated): Nil). The carrying amounts of the trade and bills receivables approximate to their fair values.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group		
	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
Neither past due nor impaired	92,491	27,609	6,772
Within 3 months past due	26,053	–	291
3 months to 1 year past due	1,274	23	1,684
Total	119,818	27,632	8,747

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there were no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances at this stage because there has not been a significant change in the credit quality of the individual debtors and the balances are considered fully recoverable.

21. TRADE AND BILLS RECEIVABLES (continued)

Included in the Group's trade receivables are amounts due from the Group's associates of RMB2,205,000 (2010: (restated) RMB2,888,000, 2009 (restated): Nil), which are repayable on similar credit terms to those offered to the major customers of the Group.

At 31 December 2011, certain of the Group's trade receivables that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR11,941,000 (equivalent to approximately RMB97,469,000, 2010 (as restated) and 2009 (as restated): Nil) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 28(b)).

As disclosed in note 2.1, since the relevant books and records are incomplete, no representation is made by the Board as to the completeness, existence and accuracy of the trade and bills receivables at 31 December 2011.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group			Company		
		2011	2010	2009	2011	2010	2009
	Notes	RMB'000	RMB'000 (Restated)	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments to suppliers		11,301	75,735	54,004	–	–	–
Due from related parties	39(b)	505	398	12,530	–	195	10,966
Due from subsidiaries	18	–	–	–	573,880	388,467	–
Due from a director	39(b)	643	–	–	–	–	–
Insurance claims		10,827	–	–	–	–	–
Others		26,108	11,999	2,274	301	60	–
		49,384	88,132	68,808	574,181	388,722	10,966

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

As disclosed in note 2.1, since the relevant books and records are incomplete, no representation is made by the Board as to the completeness, existence and accuracy of the prepayments, deposits and other receivables at 31 December 2011.

23. HELD-TO-MATURITY INVESTMENTS

The Group entered into an entrusted fund management agreement on 24 March 2010 with Hunan Trust and Investment Co., Ltd. ("Hunan Trust"), an independent third party, pursuant to which, Ausnutria China entrusted Hunan Trust a fund of RMB200,000,000 to purchase an entrusted loan (the "Entrusted Loan") from Hunan Provincial Expressway Construction and Development Co., Ltd., an independent third party. The Entrusted Loan was unsecured and bore an interest rate of 5% per annum and matured on 17 March 2011. The Entrusted Loan was classified as a held-to-maturity investment and was measured at amortised cost using the effective interest rate method as at 31 December 2010.

On 29 April 2011, the Group entered into another entrusted fund management agreement with Yunnan International ("Yunnan Trust"), an independent third party, pursuant to which, Ausnutria China entrusted Yunnan Trust a fund of RMB200,000,000 to purchase an entrusted loan (the "New Entrusted Loan") from China Merchants Bank (Changsha), an independent third party. The New Entrusted Loan is unsecured and bears interest at an expected rate of return of approximately 5.7% per annum and would mature on 25 April 2012. The New Entrusted Loan is classified as a held-to-maturity investment and was measured at amortised cost using the effective interest rate method as at 31 December 2011.

The New Entrusted Loan together with its interest was transferred to time deposits and was placed with banks in Mainland China after its matured in April 2012.

24. CASH AND CASH EQUIVALENTS

	Group			Company		
	2011	2010	2009	**2011**	2010	2009
	RMB'000	RMB'000	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and bank balances	**342,241**	638,984	1,465,887	**16,144**	382,152	906,905

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB273,908,000 (2010: RMB255,446,000, 2009: RMB555,444,000). The RMB is not freely convertible in the international market. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to convert RMB into other currencies through banks to conduct foreign exchange business.

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

25. TRADE PAYABLES

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

	Group		
	2011 RMB'000	2010 RMB'000	2009 RMB'000
Within 12 months	84,250	8,784	25,358
Over 12 months	47	–	–
	84,297	8,784	25,358

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

26. OTHER PAYABLES AND ACCRUALS

	Group			Company		
	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)	2011 RMB'000	2010 RMB'000	2009 RMB'000
Advances from customers	141,368	117,113	104,909	–	–	–
Deferred income	39,433	–	–	–	–	–
Deposits	10,054	7,055	15,829	–	–	–
Due to related parties	–	–	85,452	–	–	85,452
Due to subsidiaries	–	–	–	30,645	32,164	9,579
Accrued salaries and welfare	19,529	7,939	4,101	132	116	134
Other tax payables	2,828	3,236	9,553	–	–	–
Others	28,729	13,625	13,462	134	463	–
Accruals	17,567	318	207	–	–	–
	259,508	149,286	233,513	30,911	32,743	95,165

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

As disclosed in note 2.1, since the relevant books and records are incomplete, no representation is made by the Board as to the completeness, existence and accuracy of the other payables and accruals of the Group at 31 December 2011.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		
	2011 RMB'000	2010 RMB'000	2009 RMB'000
Interest rate swaps entered into by the Ausnutria Hyproca Group	1,175	–	–

The Ausnutria Hyproca Group has entered into various interest rate swap contracts to manage its interest rate exposures. These interest rate swaps are measured at fair value through profit or loss. A net fair value loss of these interest rate swaps amounting to RMB110,000 (2010 and 2009: Nil) was charged to finance costs in the consolidated statement of comprehensive income for the year ended 31 December 2011.

28. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

The following table illustrates the interest-bearing bank loans and other borrowings of the Group:

Group

31 December 2011

	Annual effective interest rate (%)	Maturity	RMB'000
Current			
Finance lease payables (note 31)	3.0	2012	1,079
Bank overdrafts – secured*	Euribor	2012	86,634
Current portion of long – term bank loans – secured*	4.45	2012	2,040
	1 month Euribor + 2.0	2012	1,633
			91,386
Non-current			
Finance lease payables (note 31)	3.0	2014	1,448
Bank loans – secured	4.45	2017	10,203
Bank loans – secured*	1 month Euribor + 2.0	2031	31,018
			42,669
			134,055

28. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (continued)

Group

31 December 2010

There were no outstanding bank loans and other borrowings as at 31 December 2010.

31 December 2009

	Annual effective interest rate (%)	Maturity	RMB'000
Current			
Bank loans – unsecured	5.31	2010	350,000

* Includes the effects of related interest rate swaps as further detailed in note 27 to the financial statements.

	Group	
	2011 RMB'000	2009 RMB'000
Analysed into		
Bank loans and overdrafts repayable		
Within one year or on demand	**90,307**	350,000
In the second year	**3,674**	–
In the third to fifth years, inclusive	**11,019**	–
Beyond five years	**26,528**	–
	131,528	350,000
Other borrowings repayable		
Within one year or on demand	**1,079**	–
In the second year	**1,079**	–
In the third to fifth years, inclusive	**369**	–
	2,527	–
	134,055	350,000

28. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (continued)

Notes:

(a) The Group's bank overdraft facilities that were attributed to the Ausnutria Hyproca Group amounted to EUR13,500,000 (equivalent to approximately RMB110,194,000; 2010 and 2009: Nil), of which EUR10,600,000 (equivalent to approximately RMB86,523,000, 2010 and 2009: Nil) had been utilised as at 31 December 2011 (2010 and 2009: Nil), are secured by the pledge of certain of the Ausnutria Hyproca Group's assets amounting to EUR41,500,000 (equivalent to approximately RMB338,898,000; 2010 and 2009: Nil).

(b) All bank loans are attributable to the Ausnutria Hyproca Group, and are secured by:

(i) Mortgages over the Ausnutria Hyproca Group's land and buildings situated in the Netherlands, which had an aggregate carrying value at the end of the reporting period of EUR8,316,000 (equivalent to approximately RMB67,880,000) (2010 and 2009: Nil);

(ii) Pledged of the Ausnutria Hyproca Group's plant and equipment situated in the Netherlands, which had an aggregate carrying value at the end of the reporting period of EUR9,448,000 (equivalent to approximately RMB77,121,000) (2010 and 2009: Nil);

(iii) Pledged of the Ausnutria Hyproca Group's inventories, which had an aggregate carrying value at the end of the reporting period of EUR11,814,000 (equivalent to approximately RMB96,428,000) (2010 and 2009: Nil); and

(iv) Pledged of the Ausnutria Hyproca Group's trade receivables, which had an aggregate carrying value at the end of the reporting period of EUR11,941,000 (equivalent to approximately RMB97,469,000) (2010 and 2009: Nil).

(c) All borrowings are denominated in EUR.

29. DEFINED BENEFIT PLAN

Hyproca Dairy operates an unfunded defined benefit plan for all its qualifying employees. Under the plan, the employees are entitled to retirement benefits at rates varying from 0% to 70% of their final salaries on attainment of a retirement age of 65.

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out at 31 December 2011 by Ernst & Young Actuarial Services NL, using the projected unit credit actuarial valuation method.

The principal actuarial assumptions used as at the end of the reporting period are as follows:

	2011
Discount rate (%)	3.7%
Expected rate of return on plan assets (%)	3.7%
Expected rate of salary increases (%)	2.5%
Expected rate of pension increases (%)	1.5%

29. DEFINED BENEFIT PLAN (continued)

The overall expected rate of return on plan assets is determined based on the market expectations prevailing, applicable to the period over which the obligations are to be settled.

The actuarial valuation showed that the market value of plan assets was RMB15,917,000 and that the actuarial value of these assets represented 55% of the benefits that had accrued to qualifying employees. The deficiency of RMB13,207,000 is expected to be cleared over the remaining service period of 18 years.

The total expenses recognised in the consolidated statement of comprehensive income in respect of the plan are as follows:

	2011 RMB'000
Current service cost	170
Interest cost	187
Expected return on plan assets	(115)
Actuarial losses	756
Additional charges	47
Net benefit expenses	1,045
Expected employer contribution	195
Recognised in administrative expenses	850
	1,045

29. DEFINED BENEFIT PLAN (continued)

The movements in the present value of the defined benefit obligations are as follows:

	2011 RMB'000
At 1 January	–
Acquisition of subsidiaries (note 34)	29,982
Current service cost	170
Interest cost	187
Contributions by plan participants	25
Actuarial losses on obligation	1,215
Benefits paid	(127)
Past service cost	–
Exchange differences on a foreign plan	(2,328)
At 31 December	29,124

The movements in the fair value of plan assets are as follows:

	2011 RMB'000
At 1 January	–
Acquisition of subsidiaries (note 34)	16,571
Expected return	115
Actuarial gains	459
Contributions by employer	195
Contributions by plan participants	25
Additional charges	(47)
Benefits paid	(127)
Exchange differences on a foreign plan	(1,274)
At 31 December	15,917
Actual return on plan assets	573

29. DEFINED BENEFIT PLAN (continued)

A reconciliation of the fair value of the plan assets and the present value of the defined benefit obligations to the net value of assets and liabilities recognised in the consolidated statement of financial position is as follows:

	2011 RMB'000
Fair value of plan assets	(15,917)
Present value of defined benefit obligations	29,124
Net liabilities arising from defined benefit obligations	13,207
Actual return on reimbursement right recognised as an asset	13,207

A five year summary of the present value of the defined benefit obligations and the fair value of the plan assets that were attributed to the Ausnutria Hyproca Group and consolidated into the Group since 17 October 2011 is as follows:

	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Present value of defined benefit obligations	29,124	25,741	25,286	21,878	13,632
Fair value of plan assets	15,917	14,592	14,353	11,320	13,803

30. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax liabilities

Group

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Milk collection rights RMB'000	Withholding taxes RMB'000	Total RMB'000
31 December 2011					
At 1 January 2011	–	–	–	–	–
Acquisition of subsidiaries (note 34)	5,549	15,954	1,596	–	23,099
Deferred tax charged/(credited) to the consolidated statement of comprehensive income during the year (note 10)	1,444	107	(110)	6,183	7,624
Exchange difference	(473)	(1,206)	(117)	–	(1,796)
Gross deferred tax liabilities at 31 December 2011	6,520	14,855	1,369	6,183	28,927

30. DEFERRED TAX (continued)

Deferred tax assets

Group

	Defined benefit plan RMB'000	Losses available for offsetting against future taxable income RMB'000	Provision against inventories RMB'000	Deductible temporary difference RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
31 December 2011							
At 1 January 2011	–	–	101	3,916	–	–	4,017
Acquisition of subsidiaries (note 34)	3,355	10,447	–	–	–	291	14,093
Deferred tax credited/(charged) to the consolidated statement of comprehensive income during the year (note 10)	212	348	196	(999)	6,090	25	5,872
Exchange difference	(261)	(801)	–	–	–	(24)	(1,086)
Gross deferred tax assets at 31 December 2011	3,306	9,994	297	2,917	6,090	292	22,896
At 1 January 2010	–	–	–	–	–	–	
Deferred tax charged to the consolidated statement of comprehensive income during the year (note 10)	–	–	101	3,916	–	–	4,017
Gross deferred tax assets at 31 December 2010	–	–	101	3,916	–	–	4,017

Management expects it is probable that taxable profit will be available against which the above deducible temporary differences can be utilised in the coming years.

The Group has tax losses arising in Hong Kong and Netherlands of RMB313,000 (2010: RMB2,923,000, 2009: Nil) and RMB7,931,000 (2010 and 2009: Nil), respectively, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in elsewhere of RMB11,830,000 (2010 and 2009: Nil) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

30. DEFERRED TAX (continued)

Deferred tax assets (continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by the subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

31. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its production purpose. These leases are classified as finance leases and have remaining lease terms ranging from four to six years.

At 31 December 2011, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payment 2011 RMB'000	Present value of minimum lease payment 2011 RMB'000
Amount payable:		
Within one year	1,100	1,079
In the second year	1,104	1,079
In the third to fifth years, inclusive	379	369
Total minimum financial lease payments	2,583	2,527
Future finance charges	(56)	
Total net finance lease payables	2,527	
Portion classified as current liabilities (note 28)	(1,079)	
Non-current portion (note 28)	1,448	

32. SHARE CAPITAL

Shares

	2011 HK$'000	2010 HK$'000	2009 HK$'000
Authorised:			
1,500,000,000 (2010 and 2009: 1,500,000,000) ordinary shares of HK$0.10 each	150,000	150,000	150,000

	2011		2010		2009	
	HK$'000	RMB'000 equivalent	HK$'000	RMB'000 equivalent	HK$'000	RMB'000 equivalent
Issued and fully paid						
986,843,000 (2010 and 2009: 1,045,000,000) ordinary shares of HK$0.10 each	98,684	86,866	104,500	92,066	104,500	92,066

During the year, the movements in share capital were as follows:

(a) The Company repurchased 69,157,000 shares, at prices ranging from HK$1.24 to HK$2.85 per share during the current year. The total cost was HK$159,320,000 (equivalent to RMB134,527,000) and the shares repurchased have been cancelled.

(b) The Company issued 11,000,000 new shares at HK$1.36, amounting to HK$14,960,000 (equivalent to RMB12,140,000) for the Acquisition. Details of the Acquisition are included in note 34 to the financial statements.

32. SHARE CAPITAL (continued)

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2010	1,045,000,000	92,066	675,843	767,909
Proposed final 2010 dividend	–	–	(26,676)	(26,676)
At 31 December 2010 and 1 January 2011	1,045,000,000	92,066	649,167	741,233
Repurchase of shares (note (a) above)	(69,157,000)	(6,093)	(128,434)	(134,527)
Issue of shares (note (b) above)	11,000,000	893	11,247	12,140
At 31 December 2011	**986,843,000**	**86,866**	**531,980**	**618,846**

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 76 to 77 of the financial statements.

(i) Capital reserve

Capital reserve represents the aggregate issued paid-in capital of subsidiaries comprising the Group in 2009 and contribution from the then owners of certain property, plant and equipment and a lease prepayment for land use rights at nil consideration in 2007.

(ii) Statutory surplus reserve

According to the PRC Company Law, each of the PRC subsidiaries of the Group is required to transfer 10% of its respective after-tax profit, calculated in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of the company, provided that such fund is maintained at a minimum level of 25% of the registered capital.

33. RESERVES (continued)

(b) Company

	Notes	Share premium RMB'000	Capital reserve* RMB'000	Accumulated losses RMB'000	Proposed final dividend RMB'000	Total RMB'000
Balance at 1 January 2009		–	–	–	–	–
Total comprehensive income for the year		–	–	(409)	–	(409)
Acquisition of subsidiaries		–	171,320	–	–	171,320
Capitalisation issue		(70,438)	–	–	–	(70,438)
Issues of shares		841,771	–	–	–	841,771
Share issue expenses		(40,284)	–	–	–	(40,284)
Proposed final 2009 dividend	12	(55,206)	–	–	55,206	–
At 31 December 2009		675,843	171,320	(409)	55,206	901,960
Balance at 1 January 2010		675,843	171,320	(409)	55,206	901,960
Total comprehensive loss for the year		–	–	(29,369)	–	(29,369)
Final 2009 dividend declared		–	–	–	(55,206)	(55,206)
Proposed final 2010 dividend	12	(26,676)	–	–	26,676	–
At 31 December 2010		649,167	171,320	(29,778)	26,676	817,385
Balance at 1 January 2011		649,167	171,320	(29,778)	26,676	817,385
Total comprehensive loss for the year		–	–	(31,530)	–	(31,530)
Final 2010 dividend declared		1,876**	–	–	(26,676)	(24,800)
Repurchase of shares	32(a)	(128,434)	–	–	–	(128,434)
Issue of shares	32(b)	11,247	–	–	–	11,247
At 31 December 2011		**533,856**	**171,320**	**(61,308)**	**–**	**643,868**

* The Company's capital reserve represents the excess of the net asset value of the subsidiaries acquired pursuant to a group reorganisation in 2009 over the nominal value of the Company's shares issued in exchange therefor.

** The amount represented the non-distributed proposed dividend which arose from repurchase of shares before payment of 2010 final dividend.

34. BUSINESS COMBINATION

On 30 June 2011, the Group and DDI entered into the Subscription Agreement, to subscribe approximately 19.44% of the enlarged equity interests in Ausnutria Hyproca through its investment vehicle, Ausnutria Dairy (Dutch) Coöperatief U.A ("Ausnutria Dutch"), at a consideration of EUR6,282,500 (equivalent to RMB59,468,000). The Subscription was completed on 3 July 2011 and Ausnutria Hyproca was accounted for as an associate of the Group thereafter.

On 19 July 2011, the Group and DDI entered the Acquisition Agreement for the Acquisition of approximately 31.56% of the equity interests in Ausnutria Hyproca from DDI at a consideration of EUR10,369,000 (equivalent to RMB94,745,000), which was to be settled by (a) payment of EUR7,419,000 (equivalent to RMB69,395,000); and (b) an allotment and issuance of 11,000,000 new ordinary shares by the Company to DDI. The Acquisition was completed on 17 October 2011. Taking into account of the approximately 19.44% of the enlarged equity interests subscribed on 3 July 2011, the Company, through Ausnutria Dutch, holds a total of 51% of the issued share capital of Ausnutria Hyproca upon completion of the Acquisition and Ausnutria Hyproca became an indirect non-wholly-owned subsidiary of the Company thereafter.

The Ausnutria Hyproca Group is principally engaged in the dairy industry in the Netherlands with activities ranging from research and development, milk collection, processing, production, packaging, marketing and sales of dairy products to customers in the Netherlands and other overseas countries. The Ausnutria Hyproca Group comprised four principal operating subsidiaries, namely, Hyproca Dairy, Lypack, Hyproca Nutrition and Hyproca Lyempf. The Subscription and the Acquisition were made as part of the Group's strategy to invest in or acquire upstream milk powder related assets and operations to ensure a stable supply of milk powder to cope with the business growth.

34. BUSINESS COMBINATION (continued)

The fair values of the identifiable assets and liabilities of the Ausnutria Hyproca Group as at the acquisition date were as follows:

	Notes	**Fair value recognised on Acquisition** RMB'000
Property, plant and equipment	14	199,756
Other intangible assets	17	23,289
Cash and cash equivalents		90
Deferred tax assets	30	14,093
Inventories		104,670
Trade and bills receivables		84,825
Prepayments, deposits and other receivables		63,932
Interest-bearing bank loans and other borrowings		(154,491)
Trade and bills payables		(59,341)
Other payables and accruals		(38,497)
Tax payable		(2,774)
Non-controlling interests		(2,451)
Deferred tax liabilities	30	(23,099)
Derivative financial instruments		(1,157)
Defined benefit plans	29	(13,411)
Dividends payable		(18,452)
Total identifiable net assets at fair value		176,982
51% of net assets at fair value		90,261
Goodwill on acquisition	16	92,909
Gain on remeasurement of the approximately 19.44% of the enlarged equity interests in the Ausnutria Hyproca Group upon completion of the Acquisition		(14,126)
Dividend receivable during the first purchase stage		3,588
Share of profit as an associate		(4,763)
		167,869
Satisfied by:		
Cash		128,863
Issuance of Shares	32(b)	12,140
Contingent consideration (as explained below)		26,866
		167,869

34. BUSINESS COMBINATION (continued)

The Group incurred transaction costs of a total of RMB7,257,000 for the Subscription and the Acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated statement of comprehensive income.

An analysis of the cash flows in respect of the Acquisition is as follows:

	RMB'000
Cash consideration	(128,863)
Cash and cash equivalents acquired	90
Net outflow of cash and cash equivalents included in cash flows from investing activities	(128,773)
Transaction costs of the Subscription and the Acquisition included in cash flows from operating activities	(7,257)
	(136,030)

Since the Acquisition, the Ausnutria Hyproca Group contributed RMB211,904,000 to the Group's revenue and RMB12,361,000 to the consolidated profit for the year ended 31 December 2011.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit after tax but before non-controlling interests of the Group for the year ended 31 December 2011 would have been RMB1,208,510,000 and RMB99,909,000, respectively.

Contingent consideration

As part of the Subscription Agreement of 19.44% of the enlarged equity interests with DDI, a contingent consideration has been agreed. If the average of net profit after taxation of the Ausnutria Hyproca Group for the two years ended 31 December 2010 and 2011 (as calculated and adjusted in accordance with the terms set out in Subscription Agreement and as to be agreed between Ausnutria Dutch and DDI or as determined by an independent accountant) (the "Adjusted Results") were above or below 10% of EUR2,600,000, the parties should adjust the consideration in accordance with the formula below:

(a) In the event and to the extent that the Adjusted Results were above EUR2,600,000 by more than 10%, the difference in excess of 10% multiplied by 10 times, up to a maximum amount of EUR710,000 (equivalent to RMB6,649,000) should be payable by Ausnutria Dutch to Ausnutria Hyproca; or

(b) In the event and to the extent that the Adjusted Results were below EUR2,600,000 by more than 10%, the difference in excess of 10% multiplied by 10 times and 19.44% should be payable by DDI to Ausnutria Dutch.

34. BUSINESS COMBINATION (continued)

Contingent consideration (continued)

As part of the Acquisition Agreement with DDI, a total contingent consideration, including the consideration agreed in the first step has been agreed. If the Adjusted Results were above or below 10% of EUR2,600,000, the parties should adjust the consideration in accordance with the formula below:

(a) In the event and to the extent that the Adjusted Results were above EUR2,600,000 by more than 10%, the difference in excess of 10% multiplied by 10 times, up to a maximum amount of EUR3,000,000 (equivalent to RMB26,866,000) should be payable by Ausnutria Dutch to Ausnutria Hyproca; or

(b) In the event and to the extent that the Adjusted Results were below EUR2,600,000 by more than 10%, the difference in excess of 10% multiplied by 10 times and 51% of that amount should be payable by DDI to Ausnutria Dutch.

As at the acquisition date, the fair value of the contingent consideration was estimated to be EUR3,000,000 (equivalent to RMB26,866,000).

As at 31 December 2011, the key performance indicators of the Ausnutria Hyproca Group showed clearly that the Adjusted Results had been achieved. Accordingly, no adjustment of the fair value of the consideration has been made.

Subsequent to the end of the reporting period, on 13 April, 2012, Ausnutria Dutch paid an additional consideration of EUR3,000,000 to Ausnutria Hyproca as the Adjusted Results were concluded to be approximately EUR3,220,000.

35. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities (2010 and 2009: Nil).

36. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, that were attributed to and secured by the assets of the Ausnutria Hyproca Group, are included in notes 14, 20, 21 and 28, respectively, to the financial statements.

37. OPERATING LEASE ARRANGEMENTS

As lessee

At the end of the reporting period, the Group had the following total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		
	2011	2010	2009
	RMB'000	RMB'000	RMB'000
Within one year	**327**	402	420
In the second to fifth years, inclusive	**62**	–	–
	389	402	420

At at the end of the reporting period, the Company did not have any future minimum lease payments under non-cancellable operating leases (2010 and 2009: Nil).

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37 above, the Group had the following capital commitments at the end of the reporting period:

	Group		
	2011	2010	2009
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Leasehold improvements	**4,563**	–	–
Plant and machinery	**3,676**	–	–
	8,239	–	–

At the end of the reporting period, the Company had no significant commitments (2010 and 2009: Nil).

39. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

		Group		
	Notes	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000
Associates:				
Sales of merchandises	(i)	32,936	10,651	–
Sales of promotion products	(i)	281	–	–
Fellow subsidiaries:				
Office rental expense to Changsha Xin Da Xin Real Estate Management Co., Ltd. ("Xin Da Xin")		–	402	420
Purchase of property from Xin Da Xin	(ii)	–	23,108	–
Provision of a guarantee to the Group		–	–	187,328
Interest income		–	–	3,286
Sales of merchandise to Xin Da Xin	(iii)	–	34	69
Purchase of merchandise from Aubrand Food Co., Ltd. ("Aubrand")	(iv)	43	1,137	–
Sale of merchandise to Aubrand		–	–	1,846

Notes:

(i) The sales to associates were determined with reference to sales prices to major independent third party customers. During the year ended 31 December 2010, sales to associates were made according to mutually agreed terms.

(ii) In December 2010, the Group signed a property purchase agreement with Xin Da Xin to purchase two floors of office buildings located in Changsha, the PRC (the "Properties"). The price was determined by making reference to an independent valuer's valuation report. As at the date of approving these consolidated financial statements, the Group has already obtained all the property right certificates of the Properties.

(iii) The sales prices were determined with reference to sales prices to major independent third party customers.

(iv) The Group purchased olive oil from Aubrand, a fellow subsidiary of the Group. The purchase price was based on the mutual agreement between the Group and Aubrand.

39. RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

		Group		
	Note	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000
Trade receivables:				
Xin Da Xin		–	1	–
Associates		2,205	2,888	–
Prepayments, deposits and other receivables:				
Aubrand		505	398	1,564
Ausnutria BVI		–	–	2,612
Braver Leader Limited		–	–	8,354
Amount due from a director	(i)	643	–	–
Long-term prepayment:				
Xin Da Xin		–	23,108	–
Other payables and accruals:				
Associates		12,609	5,839	–
All Harmony International Limited		–	–	46,403
Silver Castle International Limited		–	–	39,049

The balances with related parties are unsecured, non-interest-bearing and have no fixed terms of repayments.

Note:

(i) The balance represented the loan granted to the then executive director and chief executive officer of the Company and Ausnutria China, Mr. Chen Yuanrong, which was unsecured, bore interest at 5% per annum and was fully repaid subsequent to the reporting period. The maximum outstanding balance due from Mr. Chen Yuanrong during the year was RMB712,000.

39. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

	Group		
	2011	2010	2009
	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	4,175	772	536
Retirement benefit contributions	90	14	5
Total compensation paid to key management personnel	4,265	786	541

Further details of directors and the chief executive's emoluments are included in note 8 to the financial statements.

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2011

Financial assets

	Group		
	Held-to-maturity investments	Loans and receivables	Total
	RMB'000	RMB'000	RMB'000
Trade and bills receivables	–	177,792	177,792
Financial assets included in prepayments, deposits and other receivables	–	11,975	11,975
Held-to-maturity investments	200,000	–	200,000
Time deposits	–	110,000	110,000
Cash and cash equivalents	–	342,241	342,241
	200,000	642,008	842,008

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2011

Financial liabilities

	Group		
	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	84,297	84,297
Financial liabilities included in other payables and accruals	–	56,350	56,350
Derivative financial instruments	1,175	–	1,175
Interest-bearing bank loans and other borrowings	–	134,055	134,055
	1,175	274,702	275,877

2010

Financial assets

	Group		
	Held-to-maturity investments RMB'000	Loans and receivables RMB'000 (Restated)	Total RMB'000 (Restated)
Trade and bills receivables	–	59,045	59,045
Financial assets included in prepayments, deposits and other receivables	–	403	403
Held-to-maturity investments	200,000	–	200,000
Cash and cash equivalents	–	638,984	638,984
	200,000	698,432	898,432

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2010

Financial liabilities

	Group Financial liabilities at amortised cost RMB'000
Trade payables	8,784
Financial liabilities included in other payables and accruals	20,998
	29,782

2009

Financial assets

	Group Loans and receivables RMB'000 (Restated)
Trade and bills receivables	8,747
Financial assets included in prepayments, deposits and other receivables	12,530
Cash and cash equivalents	1,465,887
	1,487,164

2009

Financial liabilities

	Group Financial liabilities at amortised cost RMB'000
Trade payables	25,358
Financial liabilities included in other payables and accruals	114,950
Interest-bearing bank loan	350,000
	490,308

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2011

Financial assets

	Company Loans and receivables RMB'000
Due from subsidiaries	573,880
Financial assets included in prepayments, deposits and other receivables	265
Cash and cash equivalents	16,144
	590,289

2011

Financial liabilities

	Company Financial liabilities at amortised cost RMB'000
Due to subsidiaries	30,645
Financial liabilities included in other payables and accruals	134
	30,779

2010

Financial assets

	Company Loans and receivables RMB'000
Due from subsidiaries	388,467
Financial assets included in prepayments, deposits and other receivables	255
Cash and cash equivalents	382,152
	770,874

40. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2010

Financial liabilities

	Company Financial liabilities at amortised cost RMB'000
Due to subsidiaries	32,164
Financial liabilities included in other payables and accruals	463
	32,627

2009

Financial assets

	Company Loans and receivables RMB'000
Financial assets included in prepayments, deposits and other receivables	10,966
Cash and cash equivalents	906,905
	917,871

2009

Financial liabilities

	Company Financial liabilities at amortised cost RMB'000
Due to subsidiaries	9,579
Financial liabilities included in other payables and accruals	85,452
	95,031

41. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts			Fair values		
	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
Financial assets						
Cash and cash equivalents	342,241	638,984	1,465,887	342,241	638,984	1,465,887
Time deposits	110,000	–	–	110,000	–	–
Trade and bills receivables	177,792	59,045	8,747	177,792	59,045	8,747
Financial assets included in prepayments, deposits and other receivables	11,975	403	12,530	11,975	403	12,530
Held-to-maturity investments	200,000	200,000	–	200,000	200,000	–
	842,008	898,432	1,487,164	842,008	898,432	1,487,164
Financial liabilities						
Trade payables	84,297	8,784	25,358	84,297	8,784	25,358
Financial liabilities included in other payables and accruals	56,350	20,998	114,950	56,350	20,998	114,950
Derivative financial instruments	1,175	–	–	1,175	–	–
Interest-bearing bank loans and other borrowings	134,055	–	350,000	134,055	–	350,000
	275,877	29,782	490,308	275,877	29,782	490,308

41. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Company

	Carrying amounts			Fair values		
	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
Financial assets						
Cash and cash equivalents	16,144	382,152	906,905	16,144	382,152	906,905
Financial assets included in prepayments, deposits and other receivables	265	255	10,966	265	255	10,966
Due from subsidiaries	573,880	388,467	–	573,880	388,467	–
	590,289	770,874	917,871	590,289	770,874	917,871
Financial liabilities						
Financial liabilities included in other payables and accruals	134	463	85,452	134	463	85,452
Due to subsidiaries	30,645	32,164	9,579	30,645	32,164	9,579
	30,779	32,627	95,031	30,779	32,627	95,031

The fair values of the financial liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, time deposits, trade and bills receivables, held-to-maturity investments, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of finance lease payables, interest-bearing bank loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Group enters into interest rate swaps with various counterparties, principally financial institutions of creditworthy banks. Derivative financial instruments are measured using valuation techniques similar to swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, forward rates and interest rate curves. The carrying amounts of interest rate swaps are the same as their fair values.

41. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Liabilities measured at fair value:

As at 31 December 2011

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments	–	1,175	–	1,175

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 (2010 and 2009: Nil) and no transfers into or out of Level 3 (2010 and 2009: Nil).

The Company did not have any financial assets/liabilities measured at fair value as at 31 December 2011 (2010 and 2009: Nil).

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank loans, finance leases and other borrowings, amounts due from/to related parties, and cash and bank balance and time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, principally interest rate swaps. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.6 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank loans and other borrowings with a floating interest rate. In order to minimise the impact of interest rate exposure, the Group has entered into interest rate swap contracts with a creditworthy bank to manage its interest rate swaps.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points %	Increase/ (decrease) in profit before tax RMB'000
2011		
EUR	100	(2,897)
EUR	(100)	2,897

Foreign currency risk

The Group has transactional currency exposures. These exposures mainly arise from sales or purchases by the Group's operating units in Netherlands and Hong Kong in currencies other than the Group's functional currency (i.e., RMB). In addition, the Group's certain bank balances are denominated in HK$ and EUR, and certain revenue and expenses of subsidiaries of the Group are denominated in HK$ and EUR.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonable possible change in the exchange rates of HK$ and EUR, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	%	RMB'000	RMB'000
2011			
If RMB weakens against HK$	**5%**	**807**	**318**
If RMB strengthens against HK$	**(5%)**	**(807)**	**(318)**
If RMB weakens against EUR	**5%**	**–**	**2,718**
If RMB strengthens against EUR	**(5%)**	**–**	**(2,718)**
2010			
If RMB weakens against HK$	5%	19,091	150
If RMB strengthens against HK$	(5%)	(19,091)	(150)
2009			
If RMB weakens against HK$	5%	45,345	–
If RMB strengthens against HK$	(5%)	(45,345)	–

Credit risk

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 on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, time deposits, trade and bills receivables, other receivables and held-to-maturity investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade and bills receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 21 to the financial statements.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, interest-bearing bank loans, finance leases and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2011					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	–	4,581	79,716	–	–	84,297
Finance lease payables	–	270	809	1,448	–	2,527
Financial liabilities included in other payables and accruals	10,554	45,796	–	–	–	56,350
Derivative financial instruments	–	1,175	–	–	–	1,175
Interest-bearing bank loans and other borrowings	–	–	95,480	20,884	50,357	166,721
Total	10,554	51,822	176,005	22,332	50,357	311,070

	2010			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Trade payables	–	7,351	1,433	8,784
Financial liabilities included in other payables and accruals	7,055	13,943	–	20,998
Total	7,055	21,294	1,433	29,782

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

		2009		
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Bank loans	–	–	350,000	350,000
Trade payables	–	24,768	590	25,358
Financial liabilities included in other payables and accruals	101,281	13,669	–	114,950
Total	101,281	38,437	350,590	490,308

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company

		2011	
	On demand RMB'000	**Less than 3 months RMB'000**	**Total RMB'000**
Due to subsidiaries	**30,645**	**–**	**30,645**
Financial liabilities included in other payables and accruals	**–**	**134**	**134**
Total	**30,645**	**134**	**30,779**

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	2010		
	On demand RMB'000	Less than 3 months RMB'000	Total RMB'000
Due to subsidiaries	32,164	–	32,164
Financial liabilities included in other payables and accruals	–	463	463
Total	32,164	463	32,627

	2009		
	On demand RMB'000	Less than 3 months RMB'000	Total RMB'000
Due to subsidiaries	9,579	–	9,579
Financial liabilities included in other payables and accruals	–	85,452	85,452
Total	9,579	85,452	95,031

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain 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. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011, 2010 and 2009.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity plus net debt. Net debt is calculated as the sum of an interest-bearing bank loans and other borrowings, trade payables and other payables and accruals, less time deposits and cash and cash equivalents. Total equity represents equity attributable to the owners of the parent. The gearing ratio as at the end of the reporting period is as follows:

	Group		
	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Restated)
Interest-bearing bank loans and other borrowings	134,055	–	350,000
Trade payables	84,297	8,784	25,358
Other payables and accruals	259,508	149,286	233,513
Less: Time deposits	(110,000)	–	–
Cash and cash equivalents	(342,241)	(638,984)	(1,465,887)
Net debt/(cash)	25,619	(480,914)	(857,016)
Equity attributable to owners of the parent	927,242	1,045,568	1,040,686
Equity and net debt	952,861	564,654	183,670
Gearing ratio	2.7%	N/A	N/A

43. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this report, the Group has the following events took place subsequent to the end of the reporting period:

(a) On 19 October 2012, the Ausnutria Hyproca Group acquired the remaining 8.4% equity interests in Hyproca Lyempf, a 91.6% owned subsidiary of Ausnutria Hyproca, at a consideration of EUR2.8 million (equivalent to approximately RMB22.8 million).

(b) On 7 June 2013, the Company, Ausnutria Dutch and DDI, entered into a call option agreement (the "Call Option Agreement") pursuant to which DDI has granted a call option to Ausnutria Dutch or its designated nominee at a premium of HK$1.00 to acquire the remaining 49% equity interests in Ausnutria Hyproca from DDI by the issuance of 202,125,000 new shares of the Company, representing approximately 17% of the enlarged issued share capital of the Company. The option has a life of 12 months from the date of the Call Option Agreement which is extendable for a further 12 months' period at the unilateral right of DDI. Upon exercise of the call option, Ausnutria Hyproca will become an indirect wholly-owned subsidiary of the Company.

Further details of the Call Option Agreement are set out in the announcement of the Company dated 7 June 2013.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 5 December 2013.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years and the six-month period ended 30 June 2009, as extracted from the published audited financial statements (with the 2009 and 2010 financial information being restated as explained in note 2.1 to the financial statements), is set out below.

	Year ended 31 December 2011 RMB'000	Year ended 31 December 2010 RMB'000 (Restated)	Year ended 31 December 2009 RMB'000 (Restated)	Six months ended 30 June 2009 RMB'000	Year ended 31 December 2008 RMB'000	Year ended 31 December 2007 RMB'000
RESULTS						
REVENUE	629,214	513,890	545,584	320,972	405,166	186,526
Cost of Sales	(409,742)	(250,710)	(277,224)	(184,711)	(259,163)	(107,729)
Gross profit	219,472	263,180	268,360	136,261	146,003	78,797
Other income and gains	25,976	21,520	6,898	4,547	836	1,045
Selling and distribution expenses	(127,318)	(174,449)	(91,947)	(44,717)	(56,628)	(43,335)
Administrative expenses	(44,446)	(21,584)	(10,565)	(4,720)	(9,162)	(8,039)
Other expenses	(19,493)	(20,367)	(41)	(121)	(695)	(234)
Finance costs	(1,436)	(1,369)	(4,184)	(4,181)	(859)	(493)
Share of profits/(losses) of associates	5,006	(104)	–	–	–	–
Gain on remeasurement of interests upon acquisition	14,126	–	–	–	–	–
PROFIT BEFORE TAX	71,887	66,827	168,521	87,069	79,495	27,741
Income tax expense	(21,453)	(6,877)	(26,288)	(21,908)	(8,966)	(5,368)
PROFIT FOR THE YEAR	50,434	59,950	142,233	65,161	70,529	22,373
Attributable to:						
Owners of the parent	44,275	59,950	142,233	65,161	70,529	22,373
Non-controlling interests	6,159	–	–	–	–	–
	50,434	59,950	142,233	65,161	70,529	22,373

Five Year Financial Summary

	Year ended 31 December 2011 RMB'000	Year ended 31 December 2010 RMB'000 (Restated)	Year ended 31 December 2009 RMB'000 (Restated)	Six months ended 30 June 2009 RMB'000	Year ended 31 December 2008 RMB'000	Year ended 31 December 2007 RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS						
Total assets	1,537,490	1,203,638	1,656,108	287,946	227,041	116,647
Total liabilities	(526,863)	(158,070)	(615,422)	(219,726)	(121,493)	(81,653)
Net assets	1,010,627	1,045,568	1,040,686	68,220	105,548	34,994
Non-controlling interests	(83,385)	–	–	–	–	–
	927,242	1,045,568	1,040,686	68,220	105,548	34,994

Note:

As explained in note 2.1 to the financial statements, in certain prior periods, Ausnutria China had recorded certain of its sales in advance of their delivery to customers. Such errors occurred from October 2009. The comparative consolidated financial statements of the Group for the six-month period ended 31 December 2009 (and therefore for the year ended 31 December 2009), and for the year ended 31 December 2010 have been restated to correct the errors based on the Management's best estimation. The Company's previous published consolidated audited financial statements prior to 1 October 2009, including the financial information shown in the track record periods set out in the above as extracted from the Prospectus remained correct.

The financial information for the six months ended 30 June 2009 and each of the two years ended 31 December 2008 has been prepared upon the Reorganisation as if the group structure, at the time when the shares were listed on the Stock Exchange, had been in existence throughout the years concerned.