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)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2011

THE UNRESOLVED ISSUES AND RECONSTRUCTION OF RECORDS AND RESTATEMENT AND ADJUSTMENT OF FINANCIAL STATEMENTS

Reference is made to (i) the announcements of the Company between 29 March 2012 and 31 July 2013 in relation to, among other things, the Unresolved Issues and the establishment of the SRC; (ii) the announcement of the Company dated 18 August 2013 in relation to the PwC Review, the preliminary management responses and remedial actions taken or to be taken by the Company; and (iii) the Company's announcement dated 11 November 2013 in relation to the Internal Control Review by PKF.

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 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 previously published consolidated audited financial statements prior to 1 October 2009, including the financial information shown in the track record periods in the Prospectus dated 24 September 2009, however, remained correct.

In view of the doubts over the completeness and accuracy of the accounting records, the Management used the information in the Order Books which was the best available alternative information that the SRC and the Board could reasonably rely on to quantify the Adjustments.

Based on the results of the PwC Review and the information available at the date of approval of the consolidated financial statements, the Board and the SRC consider that the Questionable Transactions should have been excluded from the preparation of the consolidated financial statements of the Group for the financial 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.

The SRC and the Board regret for the acts or failings of certain personnel that 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 and covered in the PwC Report have been rectified.

FINANCIAL HIGHLIGHTS

The Group's revenue amounted to approximately RMB629.2 million for the year ended 31 December 2011, representing an increase of approximately RMB115.3 million, or approximately 22.4% as compared to approximately RMB513.9 million (as restated) for the year ended 31 December 2010.

The profit attributable to owners of the parent for the year ended 31 December 2011 was approximately RMB44.3 million, representing a decrease of approximately RMB15.7 million, or approximately 26.1% as compared to approximately RMB60.0 million (as restated) for the year ended 31 December 2010.

The earnings per share of the Company attributable to ordinary equity holders of the parent amounted to approximately RMB4.45 cents for the year ended 31 December 2011, as compared to approximately RMB5.74 cents (as restated) for the year ended 31 December 2010.

DIVIDEND

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).

BUSINESS HIGHLIGHTS

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 the Resumption, the Board has taken strategic moves to build our upstream production and procurement capability and to capture the growing markets in the PRC and other overseas markets through the completion of the Subscription and the Acquisition of 51% equity interests in the Ausnutria Hyproca Group, which is principally engaged in the dairy industry with production facilities with its milk sources based in the Netherlands.

Furthermore, on 7 June 2013, the Group entered into the COA to secure its right to acquire the remaining 49% equity interests in Ausnutria Hyproca, to be settled by the issuance of 202,125,000 new Shares.

With the relaxation of the one-child policy that was announced on 15 November 2013, the Group believes that these new policies will lead to a boost in the demand of the paediatric milk powder, benefiting in the long run the paediatric milk powder manufacturers, including the Group, who have met the national standard of the New Policies.

CHAIRMAN'S STATEMENT

To all shareholders:

I hereby present 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 (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 certain 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 the section headed "The Unresolved Issues" below)
29 March 2012	suspension of trading of the Shares due to the expected delay in publishing the 2011 Annual Results and despatch 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 its legal advisors to advise on the matters relating to the Unresolved Issues

Date	Events
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
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 SRC
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

The 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.

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 (amounted 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 appointed KWM as its 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 involved in the Unresolved Issues 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.

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 been 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 of the 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 and 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 raising 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 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 (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 and 6 to the financial statements in this announcement, 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 fulfills 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.
30 June	The Group and DDI (and others) entered into a subscription agreement (the "**Subscription Agreement**") to subscribe for approximately 19.44% of the equity interests in Ausnutria Hyproca from DDI 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 18 of the financial statements in this announcement).
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 "**Acquistion**") (please refer to note 18 of the financial statements in this announcement).
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.

Date	Events
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 based 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.
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 1897 Series, the formula of which was jointly developed with 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.

Date	Events
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 concert parties) in accordance with Rule 26.1 of the Code on Takeovers and Mergers of Hong Kong.
28 October	The Board has approved 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 to commence 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 then enlarged equity interests in Ausnutria Hyproca from DDI at a consideration of EURO 6,282,500 (equivalent to approximately RMB59.5 million) as adjusted for the contingent consideration (as detailed in note 18 to the financial statements in this announcement).

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 (as detailed in note 18 to the financial statements in this announcement). 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 its 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 18 to the financial statements in this announcement.

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 during 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 million; year ended 31 December 2009 (as restated): RMB142.2 million).

The decrease in revenue and operating performance of the Ausnutria Group in 2010 and 2011 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, 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 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 30 June
	2011	**2010**	**2009**	**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 announcement.

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.

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 announcement, 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 and is finalising a 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 Beijing University as well as the Group.

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 time.

Yan Weibin
Chairman

Changsha City, PRC
5 December 2013

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is the extract of the independent auditor's report from Ernst & Young, the external auditors of the Company on the Group's consolidated financial statements for the year ended 31 December 2011:

"**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.

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 *(note 2 to the financial statements in this announcement)*, 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 *(note 6 to the financial statements in this announcement)*, 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.

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 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 *(note 6 to the financial statements in this announcement)* (the "**Adjustments**") are complete and accurate in all material respects.

Any adjustments to the financial statements 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."

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 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 and 6 to the financial statements in this announcement, 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.

FINANCIAL REVIEW

Overall performance

Revenue and Gross Profit

	Year ended 31 December 2011 RMB'M	2010 RMB'M (Restated)	2009 RMB'M (Restated)	Six months ended 30 June 2009 RMB'M (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*

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 restated) 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 approximately 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 in 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 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	2010	2009
	RMB'M	*RMB'M*	*RMB'M*
		(As previously reported*)	(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 approximately RMB7.3 million (Year 2010: Nil; 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	2010	2009
	RMB'M	*RMB'M*	*RMB'M*
		(As previously reported*)	(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.*

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 profit of an associate

On 3 July 2011, the Group completed the Subscription for approximately 19.44% 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).

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. The management of Ausnutria China has decided to deregister/dispose of all the Trading Associates since late 2011. As of the date of this announcement, 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. 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 announcement, 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 – the PRC	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 – the PRC	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 6 to the financial statements in this announcement, 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.

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 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 (as restated): RMB72.0 million; 31 December 2009 (as restated): 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 18 to the financial statements in this announcement, 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 date of 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 (restated): approximately 153 days; 31 December 2009 (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.

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 (as restated): 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.

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 announcement.

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 (as restated): 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 (as restated): Nil), accrued salaries and welfare of approximately RMB19.5 million (31 December 2010 (as restated): RMB7.9 million, 2009: RMB4.1 million), and accrued professional fees and marketing expenses and travelling expenses of the sales and marketing staff.

Ausnutria China evaluates 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 will 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 will 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 and 2009.

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 39.4 million (31 December 2010 and 2009 (as restated): 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 (as restated): 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 mainly 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	**2010**	**2009**
	RMB'M	*RMB'M*	*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 which was offset by the increase in inventories and trade and bills receivables of approximately RMB39.7 million and RMB41.1 million, 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. 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 when compared with the Year 2009 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 (as restated), 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 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 and RMB7.3 million, 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 18 to the financial statements in this announcement, 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.

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 each of the reporting period ends.

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 announcement 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 announcement *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 remaining balance was deposited in reputable financial institutions in the PRC.

The Directors intend to apply the remaining net proceeds in the manner as set out in the announcement of the Company dated 8 September 2010.

HUMAN RESOURCES

Number of full-time employees	**PRC**	**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	–	–	–	–
	510	2	–	512
31 December 2009				
Ausnutria Group	305	2	–	307
Ausnutria Hyproca Group	–	–	–	–
	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.

DIVIDEND

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).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2011, the Company repurchased a total of 69,157,000 Shares 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

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 announcement (years ended 31 December 2009 and 2010: Nil).

CORPORATE GOVERNANCE

While having not contested by the Company and the then Directors of the Company, the Listing Committee of the Stock Exchange:

(a) censured the Company for the breach 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 (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 (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.

Further, as a result of the Unresolved Issues, the Group has breached the financial reporting provisions under the Listing Rules in respect of (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.

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 announcement, in the opinion of the Directors, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules during the year ended 31 December 2011.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the Model Code during the year ended 31 December 2011.

SHARE OPTION SCHEME

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

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 announcement 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 announcement.

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.

EXTRACTS OF CONSOLIDATED FINANCIAL STATEMENTS

The audited consolidated results of the Company and its subsidiaries for the year ended 31 December 2011 together with the restated comparative figures for the corresponding years ended 31 December 2010 and 2009 are as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	**2011** *RMB'000*	**2010** *RMB'000* (Restated)	**2009** *RMB'000* (Restated)
REVENUE	*8*	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	*8*	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	*10*	(1,436)	(1,369)	(4,184)
Share of profits/(losses) of associates		5,006	(104)	–
Gain on remeasurement of interests upon acquisition	*18*	14,126	–	–
Profit before tax	*9*	71,887	66,827	168,521
Income tax expense	*11*	(21,453)	(6,877)	(26,288)
PROFIT FOR THE YEAR		50,434	59,950	142,233
Attributable to:				
Owners of the parent		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		28,861	60,088	142,023
Non-controlling interests		(5,787)	–	–
		23,074	60,088	142,023

Details of the dividends payable and proposed for the year are disclosed in note 12.

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		251,619	38,161	26,934
Prepaid land lease payments		2,199	2,256	2,313
Goodwill	14	82,891	–	–
Other intangible assets		31,305	1,855	326
Investments in associates		1,730	2,611	–
Deferred tax assets		22,896	4,017	–
Long-term prepayment		–	23,108	–
Total non-current assets		392,640	72,008	29,573
CURRENT ASSETS				
Inventories		261,614	126,348	83,093
Trade and bills receivables	15	177,792	59,045	8,747
Prepayments, deposits and other receivables		49,384	88,132	68,808
Held-to-maturity investments		200,000	200,000	–
Tax recoverable		3,819	19,121	–
Time deposits		110,000	–	–
Cash and cash equivalents		342,241	638,984	1,465,887
Total current assets		1,144,850	1,131,630	1,626,535
CURRENT LIABILITIES				
Trade payables	16	84,297	8,784	25,358
Other payables and accruals		259,508	149,286	233,513
Derivative financial instruments		1,175	–	–
Interest-bearing bank loans and other borrowings		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
NON-CURRENT LIABILITIES				
Interest-bearing bank loans and other borrowings		42,669	–	–
Defined benefit plan		13,207	–	–
Deferred tax liabilities		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	17	86,866	92,066	92,066
Reserves		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

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2009. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The 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 were listed on the Main Board of the Stock Exchange on 8 October 2009.

On 30 June 2011, the Group and DDI entered into the Subscription Agreement, pursuant to which the Group subscribed approximately 19.44% of the equity interests in Ausnutria Hyproca from DDI. The transaction was completed on 3 July 2011. On 19 July 2011, the Group and DDI entered the Acquisition Agreement, pursuant to which the Group acquired approximately 31.56% of the equity interests in Ausnutria Hyproca from DDI. 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% 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 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. BASIS OF PREPARATION

During the audit in respect of the financial statements for the year ended 31 December 2011, certain Unresolved Issues relating to Ausnutria China, a major indirect wholly-owned subsidiary of the Company, were reported by EY, the auditors of the Company, to the Board on 29 March 2012. On the same date, in the interest of the Company and the Shareholders as a whole, the Company then applied for the Suspension of trading of the 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.

On 29 March 2012, the SRC comprising two of the independent non-executive Directors, 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 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 that certain sales of Ausnutria China amounting to RMB123 million (equivalent to approximately RMB143.5 million (inclusive of 17% VAT)) were recorded in the accounting system of Ausnutria China in December 2011, 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 EY and the establishment of the SRC, KWM were engaged by the SRC as its legal advisors in relation to the Unresolved Issues. In turn, PwC was appointed by KWM on behalf of the SRC to conduct a forensic 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, 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 EY; and

(c) there were discrepancies between the Accounting Records and information provided by the Logistic Service Provider involved in the Unresolved Issues during January to November 2011 as well as discrepancies in the inventory movement records between the Accounting Records and the Warehouse Records in 2011.

In addition to the Questionable December Transactions, PwC also identified other questionable transactions of Ausnutria China amounting to approximately RMB11.5 million (inclusive of VAT) for November 2011 (the "**Questionable November Transactions**") and approximately RMB39.6 million (inclusive of 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 dated 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 EY for examination during the audit with a view to matching the financial data previously provided by certain employees of Ausnutria China to EY 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 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 EY 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 (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).

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 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 6 to the financial statements in this announcement.

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 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.

3. 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 RMB and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the 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.

4. 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

5. 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]
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 IAS 36 *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*

6. CORRECTION OF PRIOR YEARS' ERRORS

As explained in note 2 to the financial statements in this announcement, 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.

7. 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.

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

Year ended 31 December 2011

	Ausnutria	**Ausnutria Hyproca**	**Total**
	RMB'000	*RMB'000*	*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.*

Geographical information

(a) Revenue from external customers

	2011
	RMB'000
Mainland China	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
Mainland China	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).

8. 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:

		2011	**2010**	**2009**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
			(Restated)	(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 Mainland China 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, 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.

9. 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	227,224
Write-down of inventories to net realisable value		1,307	–	–
Cost of sales		409,742	250,710	227,224
Depreciation		9,849	2,979	2,254
Amortisation of prepaid land lease payments		57	57	57
Amortisation of other intangible assets		813	118	67
Minimum lease payments under operating leases:				
Buildings		1,544	402	420
Loss on disposal of property, plant and equipment		–	–	23
Write-off of trade receivables*		–	4,956	–
Foreign exchange differences, net*		9,541	15,355	18
Transaction costs of the Subscription and Acquisition*	*18*	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):				
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, 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.

10. FINANCE COSTS

An analysis of finance costs is as follows:

	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	110	–	–
	1,436	1,369	4,184

11. 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 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 EURO 200,000 taxable profits and 25% for the taxable profits exceeding EURO 200,000.

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.

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. As at the date of this announcement, Ausnutria China is in the process of renewing its High-tech Enterprise qualification.

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

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.

As disclosed in note 2, 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. GOODWILL

	2011 *RMB'000*
Acquisition of subsidiaries	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

15. TRADE AND BILLS RECEIVABLES

	2011 *RMB'000*	2010 *RMB'000* (Restated)	2009 *RMB'000* (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.

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:

	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 (restated) and 2009 (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:

	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.

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 EURO 11,941,000 (equivalent to approximately RMB97,469,000, 2010 (restated) and 2009 (restate): Nil) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group.

As disclosed in note 2, 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.

16. 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:

	2011	**2010**	**2009**
	RMB'000	*RMB'000*	*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.

17. SHARE CAPITAL

Shares

	2011	**2010**	**2009**
	HK$'000	*HK$'000*	*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 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 18 to the financial statements in this announcement.

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**	**Share premium account**	**Total**
		RMB'000	*RMB'000*	*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 *(a)*	(69,157,000)	(6,093)	(128,434)	(134,527)
Issue of Shares *(b)*	11,000,000	893	11,247	12,140
At 31 December 2011	986,843,000	86,866	531,980	618,846

18. BUSINESS COMBINATION

On 30 June 2011, the Group and DDI entered into the Subscription Agreement, to subscribe approximately 19.44% of the equity interests in Ausnutria Hyproca from DDI through its investment vehicle Ausnutria Dutch at a consideration of EURO 6,282,500 (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 into the Acquisition Agreement for the Acquisition of approximately 31.56% of the equity interests in Ausnutria Hyproca from DDI at a consideration of EURO 10,369,000 (equivalent to RMB94,745,000), which was settled by (a) payment of EURO 7,419,000 (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% 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 fair values of the identifiable assets and liabilities of the Ausnutria Hyproca Group as at the acquisition date were as follows:

	Note	Fair value recognised on Acquisition RMB'000
Property, plant and equipment		199,756
Other intangible assets		23,289
Cash and cash equivalents		90
Deferred tax assets		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		(23,099)
Derivative financial instruments		(1,157)
Defined benefit plans		(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	*14*	92,909
Gain on remeasurement of the then 19.44% 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		12,140
Contingent consideration (as explained below)		26,866
		167,869

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.

Contingent consideration

As part of the Subscription Agreement of 19.44% 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 EURO 2,600,000, 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 EURO 2,600,000 by more than 10%, the difference in excess of 10% multiplied by 10 times, up to a maximum amount of EURO 710,000 (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 EURO 2,600,000 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.

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 EURO 2,600,000, 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 EURO 2,600,000 by more than 10%, the difference in excess of 10% multiplied by 10 times, up to a maximum amount of EURO 3,000,000 (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 EURO 2,600,000 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 payable by Ausnutria Dutch to Ausnutria Hyproca was estimated to be EURO 3,000,000 (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 EURO 3,000,000 to Ausnutria Hyproca as the Adjusted Results were concluded to be approximately EURO 3,220,000.

19. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this announcement, the Group has the following events took place subsequent to 31 December 2011:

(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 EURO 2.8 million (equivalent to approximately RMB22.8 million).

(b) On 7 June 2013, the Company, Ausnutria Dutch and DDI, entered into the COA 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 interest in Ausnutria Hyproca from DDI by the issuance of 202,125,000 new Shares, 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 COA 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 COA are set out in the announcement of the Company dated 7 June 2013.

SCOPE OF WORK OF AUDITORS

The figures contained in this preliminary announcement of the Group's results for the year ended 31 December 2011 have been agreed by the Group's auditors, EY, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2011. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by EY on the preliminary announcement.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the year ended 31 December 2011, which contains the detailed results and other information of the Company for the year ended 31 December 2011 required pursuant to Appendix 16 to the Listing Rules as well as the restated financial information of the Group for the years ended 31 December 2010 and 2009, will be dispatched to Shareholders and published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.ausnutria.com.hk in due course. This announcement can also be accessed on the above websites.

PROPOSED TRANSACTION

Reference is made to the Company's announcements dated 18 September 2013, 17 October 2013 and 15 November 2013, in relation to, among others, the proposed purchase of Shares from All Harmony International Limited, Brave Leader Limited, Silver Castle International Limited and Ausnutria Holdings Co. Ltd. (all being Shareholders and together hold in aggregate 581,646,000 Shares) by an independent third party purchaser (the "**Proposed Transaction**"). Shareholders and potential investors of the Company shall be aware that no legally binding agreement has been entered into in respect of the Proposed Transaction. There is no assurance that the Proposed Transaction will either materialise or eventually be consummated, and the discussion in relation to the Proposed Transaction may or may not proceed with and the terms of the Proposed Transaction are subject to negotiation. As such, the discussion may or may not lead to the making of a general offer for the Shares.

SUSPENSION OF TRADING

At the Company's request, trading in the Shares was suspended from 9:00 a.m. on 29 March 2012, and will remain suspended until further notice. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares. The publication of this announcement does not warrant any approval from the Stock Exchange on the resumption of trading of the Shares. The Company will keep the public informed of the latest development by making further announcements as and when appropriate.

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

Changsha City, the People's Republic of China, 5 December 2013

As at the date of this announcement, the Board comprises three executive directors, namely Mr. Yan Weibin (Chairman), Mr. Bartle van der Meer (Chief Executive Officer) and Ms. Ng Siu Hung, one non-executive director, namely Mr. Dai Li, and three independent non-executive directors, namely Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong.