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 Report 2012

Contents

Chairman's Statement

TO ALL SHAREHOLDERS:

I hereby present the annual report with the annual results (the "**2012 Annual Results**") of Ausnutria Dairy Corporation Ltd (the "**Company**") and its subsidiaries (the "**Group**") for the year ended 31 December 2012 (the "**Year 2012**").

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 continuing suspension of trading in 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 annual results of the Company for the year ended 31 December 2011 (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 2011 Annual Results was subsequently published in December 2013 and the corresponding annual report (the "**2011 Annual Report**") was despatched to the Shareholders shortly afterwards.

With (i) the issuance of a report prepared by Pricewaterhouse Coopers Limited ("**PwC**") relating to the results of the forensic review (the "**PwC Report**") to King & Wood Mallesons (the legal adviser to the special review committee of the Company (the "**SRC**") as to Hong Kong laws) on 12 August 2013; (ii) the publication of the Group's interim results for the six months ended 30 June 2012 and 30 June 2013 and the Group's annual results for the years ended 31 December 2012 and 31 December 2013 dated 27 June 2014 and published on 30 June 2014 and the despatch of the corresponding reports (the "**Outstanding Financial Results**") in July 2014; and (iii) the completion of the further internal control review conducted by PKF Consulting Inc. ("**PKF**") as set out in the announcement of the Company dated 27 June 2014 and published on 30 June 2014, the Company considers that it has fulfilled all the resumption conditions imposed by the Stock Exchange, which were published in the announcement of the Company dated 3 July 2012 (the "**Resumption Conditions**"). The Company is now taking active steps to work with the financial adviser of the Company to apply for the resumption of trading in the Shares (the "**Resumption**") on the Stock Exchange as soon as possible.

EY has not been able to express an audit opinion on the Group's profit and cash flows for the Year 2012 because of the fact that they have not been able to perform practicable audit procedures to satisfy itself on the reliability of information originated from the Order Books (to be defined below) and estimates used in the determination of the sales transactions and related accounts for inclusion in the Group's consolidated financial statements for the year ended 31 December 2011 (the "**Year 2011**") and to ascertain whether the further adjustments of RMB46 million and RMB10 million to the Group's consolidated statement of income for the Year 2012 should be adjusted in the Year 2012 or in any prior years/periods after 30 June 2009. However, EY has issued an unqualified opinion on the financial position of the Company and of the Group as at 31 December 2012.

Under the close supervision of the SRC and with the determination of the Board to steer the Group away from the damages caused by the Unresolved Issues (to be defined below), the Group has continued to invest in improving the internal control systems, which bears fruits. In connection with the year ended 31 December 2013 (the "**Year 2013**"), EY modifies its audit opinion on the consolidated financial statements for the Year 2013. The Board wishes to highlight that such modification only relates to the comparability of the Group's profits and cash flows for the Year 2013 due to the above-mentioned modified comparative information for the Group's profit and cash flows for the Year 2012 (but not on the Group's consolidated statement of financial position as at 31 December 2012). The Board considers that such modification literally means that there is an otherwise clean opinion on the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the Year 2013, and accordingly, such technical modification would be removed in the consolidated financial statements for the year ending 31 December 2014.

I would like to emphasize to all the Shareholders that, the Company always considers the protection of the interests of the Shareholders as its top priority. In this regard, the Company has always been cooperating fully with the Stock Exchange towards the Resumption and is determined to fulfill the Resumption Conditions, to seek for the Resumption at its best efforts. At the same time, the Group continues its business operations and strives for the highest returns for the benefits of the Shareholders.

UNRESOLVED ISSUES IDENTIFIED BY EY

During the course of the audit of the 2011 Annual Results, EY reported to the Board in respect of the Unresolved Issues relating to the amount of sales of Ausnutria Dairy (China) Co., Ltd. ("**Ausnutria China**", a major indirect wholly-owned subsidiary of the Company) for the Year 2011 (in particular for the month of December 2011), and accordingly, the inventories and trade receivables as at 31 December 2011 as set out in its letter (the "**EY Letter**") to the Board on 29 March 2012.

According to the EY Letter, EY were unable to carry out an effective audit work of the Group for the Year 2011 primarily in respect of the revenue, cost of sales, inventory and accounts receivable due to the failure of Ausnutria China to provide accurate sales and goods delivery information. On 29 March 2012, in the interest of the Company and the Shareholders as a whole, the Company applied for the Suspension. Details in relation to the Unresolved Issues are set out in the announcement of the Company dated 28 June 2013.

The major events relevant to the Unresolved Issues including, among others, the establishment of the SRC, the appointment of PwC to conduct the forensic review, the appointment of PKF to assist the Company in the review of the internal control systems, the remedial actions taken by the Company to address the matters arising from the Unresolved Issues and the Resumption Conditions are set out in the 2011 Annual Report.

Resumption Conditions imposed by the Stock Exchange

As set out in the announcement of the Company 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**").

Chairman's Statement

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.

BUSINESS OVERVIEW

The global dairy market has continued to grow over the past few years, particularly in the People's Republic of China (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 order to maintain a healthy growth in the industry and to improve the quality standards of paediatric milk formula, the PRC government has launched a series of new policies (the "**New Policies**") to improve the national standard for the safety of dairy products, including but not limited to the raising of the standards on the grant/renewal of the production license of the paediatric milk powder manufacturers in the PRC; the requirement for the establishment of full tracking systems by paediatric milk powder manufacturers from the production to distribution of paediatric milk powder in the PRC; and the requirement to obtain the registration of dairy products by foreign enterprises, which are now governed by a more stringent set of new rules and regulations before their products can be imported into the PRC.

As a result of the above, the Year 2012 and the periods thereafter continue to be a complicated and challenging time for the Group. While it is the Board's priority to deal with the Unresolved Issues and to seek for the Resumption, the Company has taken strategic moves to comply with the New Policies and at the same time to build the Group's upstream production and procurement capability in order to capture the growing markets in the PRC and other overseas markets.

During the Year 2012, the Group continued to invest in new information systems (the "**New IT Systems**") so as to establish the full tracking systems for its production and distribution, which are now new mandatory requirements under the New Policies in the PRC. In addition, the Group has entered into an agreement with the Medical School of Beijing University to form a 10-year strategic cooperation for the joint research and development of paediatric milk formula for the PRC market. The Group believes that the cooperation with the Medical School of Beijing University will greatly enhance the future research and development capability of the Group by leveraging on the resources of the Medical School of Beijing University as well as the Group.

In addition, the Group launched a series of new infant formula products which are targeted to penetrate into different sectors of the PRC market as well as the establishment of subsidiaries for the distribution of the Group's goat milk based infant formula in other countries during the Year 2012 and subsequent to the reporting period.

In recent years, paediatric milk formula powder brands with high quality raw milk sourced from overseas have gained increasing market shares. The increase in the demand of high quality paediatric milk formula sourced from overseas have also contributed to the increase in the demand of the dairy products produced by Ausnutria Hyproca B.V. ("**Ausnutria Hyproca**"), a 51%-owned subsidiary of the Company, and its subsidiaries (the "**Ausnutria Hyproca Group**"), which was acquired by the Group in 2011 with milk source and production facilities based in the Netherlands, for the Year 2012. The Group will continue to invest in the Ausnutria Hyproca Group in order to increase its production capacity and to enhance the quality standards of the dairy products produced by the Ausnutria Hyproca Group.

For the Year 2012, the Group recorded revenue of approximately RMB1,351.0 million, representing an increase of approximately RMB721.8 million or approximately 114.7% from approximately RMB629.2 million for the Year 2011. The increase is mainly attributable to (i) the increase in sales of the Group (excluding the Ausnutria Hyproca Group) (the "**Ausnutria Group**") by approximately RMB69.4 million; and (ii) the contribution of revenue of approximately RMB874.9 million (Period from 17 October 2011 (the completion date of the acquisition) to 31 December 2011 (the "**Period 2011**"): approximately RMB211.9 million) from the Ausnutria Hyproca Group which has been consolidated into the Group since 17 October 2011.

The Group's gross profit for the Year 2012 was approximately RMB326.2 million, representing an increase of approximately RMB106.7 million, or approximately 48.6%, when compared with the Year 2011. The gross profit margin of the Group for the Year 2012 decreased from approximately 34.9% for the Year 2011 to 24.1%, primarily due to the dilutive effect as a result of the change in sales mix after consolidating the full year results of the Ausnutria Hyproca Group which has been consolidated into the Group since 17 October 2011.

The Group's profit attributable to equity holders of the Company for the Year 2012 amounted to approximately RMB66.5 million, representing an increase of approximately 50.1% when compared with the Year 2011. The increase in net profit was mainly contributed by the growth in the operating performance of the Ausnutria Group and the effective cost controls on the marketing activities and the administrative expenses of the Group which was partly offset by the adverse impact of the temporary interruption on the production of the Ausnutria Hyproca Group and the additional professional fees incurred as a result of the Unresolved Issues.

In July 2012, the Ausnutria Hyproca Group suspended its production temporarily at the request by one of the supplement suppliers (the "**Supplier**") as one of the raw materials that was previously delivered by the Supplier might have been contaminated. As at the date of this report, based on all the lab test results conducted by the internal and external laboratories, no contamination has been found in the products supplied by the Ausnutria Hyproca Group. Besides, no cases indicating that the products sold by the Ausnutria Hyproca Group were contaminated have been reported by the customers since the occurrence of the incident.

Chairman's Statement

As a result of this incidence, the Ausnutria Hyproca Group incurred a loss for the Year 2012 amounting to approximately RMB35.0 million (Year 2011: Nil), comprising mainly the write-off of inventories. The net losses attributable to the owners of the Company after tax and deducting the non-controlling interests for the Year 2012 amounted to approximately RMB13.7 million (Year 2011: Nil). The Ausnutria Hyproca Group has already commenced the legal actions against the Supplier to recover all the above losses as well as the interruption on its business and operations. The Company is of the view that, after taking into accounts the advices from the lawyers and the insurance company, the Ausnutria Hyproca Group has a very good chance to recover all the above losses from the Supplier ultimately. However, as no concrete settlement has been reached with the Supplier, the potentially recoverable amount has not been recorded in profit and loss.

Further details regarding the operating performance of the Group are included in the "Management Discussion and Analysis" section of this report.

OUTLOOK

Downstream business

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. Furthermore, in early 2013, the PRC government launched the New Policies to improve the national standard for the safety of dairy products which the Company believes will accelerates the consolidation of the paediatric milk powder industry and would eventually lead to the elimination of small and medium enterprises in this industry. In accordance with the circular issued by the China Food and Drug Administration in relation to the Promulgation of the General Principles (the "**General Principles**") for the Examination of Production Approval for Paediatric Milk Formula Powder (2013 version) (No. 49)(國家食品藥品監督管理總局發佈關於嬰幼兒配方乳粉生產許可審查細則(2013版)的公告(第49號))promulgated by the PRC government on 16 December 2013, the paediatric milk powder manufacturers in the PRC are required to complete the renewal review process of the production license by 31 May 2014. An application submitted by a manufacturer of paediatric milk formula powder for the renewal of its production license will now be subject to the General Principles which impose more stringent criteria for granting a production license.

The Company is pleased to announce that, on 14 March 2014, Ausnutria China has completed the renewal review process of its production license and has succeeded in obtaining the renewed production license in accordance with the General Principles for another three years up to 13 March 2017. Further details regarding the grant of the production license are set out in the announcement of the Company dated 24 March 2014.

Though the New Policies have created uncertainties and a temporary interruption on the dairy industry in the PRC, including the Group, as distributors are more conservative in placing their orders after the announcement of the New Policies pending for further clarity and details regarding execution of the New Policies, the Group believes that the above policies will lead to a boost in the demand for paediatric milk powder, benefiting the paediatric milk powder manufacturers who can meet the national standard under the New Policies, including the Group, in the long run.

Upstream business

Since 2011, the Company has taken strategic moves to build the Group's upstream production and procurement capability and to capture the growing markets in the PRC and globally by acquiring an aggregate of 51% equity interests in Ausnutria Hyproca which has international presence and expertise in the international paediatric nutritional products. To facilitate the further integration of the business of the Ausnutria Hyproca Group into the Group and with an aim to strengthen the management of the Company with international perspectives, on 7 June 2013, the Group entered into a call option agreement (the "**COA**") with Dutch Dairy Investments B.V. ("**DDI**") under which Ausnutria Dairy (Dutch) Coöperatief U.A. ("**Ausnutria (Dutch)**"), an indirect wholly-owned subsidiary of the Company, 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 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. The call option has a life of 12 months from the date of the COA (the "**Initial Period**") which is extendable for a further 12-month period at the unilateral right of DDI. On the same date, Mr. Bartle van der Meer, one of the shareholders and directors of DDI with ample international experience in banking, investment and paediatric nutritional products, has been appointed as an executive Director and chief executive officer of the Company. Details of the COA and the change of Directors were set out in the announcement of the Company dated 7 June 2013.

Owing to the unavailability of the recent published audit report of the Company prior to the expiration of the Initial Period, the Company has not been able to proceed with the approval process of the COA. On 5 June 2014, DDI has exercised its right to extend the call option for another 12-month period to 6 June 2015 in accordance with the terms of the COA as mentioned in the above. Further details regarding the extension of the call option are set out in the announcement of the Company dated 9 June 2014.

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

Other policies

Pursuant to the Food Safety Law of the People's Republic of China (中華人民共和國食品安全法) firstly promulgated by the government of the PRC on 28 February 2009, in order to ensure food safety and protect public health, any enterprises engaged in the food related activities (including food processing plants) in the territories of the PRC shall abide by this law with effect from 1 June 2009.

Furthermore, in accordance with the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (the "**AQSIQ**") (國家質量監督檢驗檢疫總局) (「**總局**」) Announcement No. 152 on the Administrative Measures Governing the Inspection and Quarantine of Import and Export Dairy Products (進出口乳品檢驗檢疫監督管理辦法,總局第152號令), the AQSIQ Announcement No. 145 on the Provisions on the Administration of Registration of Foreign Enterprises Producing Imported Food (進口食品境外生產企業註冊管理規定,總局第145號令) and the AQSIQ Announcement No. 62, 2013 on the Implementation List for Registration of Foreign Enterprises Producing Imported Food (關於發佈《進口食品生產企業註冊實施目錄》的公告,總局2013年第62號公告), in order to reinforce the inspection and quarantine of import and export of dairy products, unregistered foreign enterprises producing dairy products are forbidden to import their products into the PRC from 8 May 2014 onwards.

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The Company is pleased to announce that pursuant to the AQSIQ Announcement No. 51, 2014 on Promulgating the List of First Batch of Registered Overseas Dairy Producers that are Eligible to Export to China（首批進口乳品境外生產企業註冊名單，總局2014年第51號公告）, on 6 May 2014, three of the Company's subsidiaries incorporated in the Netherlands that are wholly-owned by Ausnutria Hyproca, namely, (i) Lypack Leeuwarden B.V.; (ii) Hyproca Dairy B.V.; and (iii) Lyempf Kampen B.V. ("**Hyproca Lyempf**"), have been included in the first batch of registered overseas dairy products producers that were granted the registrations for importing their products into the PRC. Products approved to be imported into the PRC for the respective companies are as follows:–

Name	**Products approved to be imported into the PRC**
Lypack Leeuwarden B.V.	Infant formula milk powder and fortified formula milk powder
Hyproca Dairy B.V.	Whole milk powder, skimmed milk powder, butter and cream
Hyproca Lyempf	Other milk powder

The granting of the license to the above subsidiaries has further assured and recognised the good quality of the dairy products produced by the Group's factories in the Netherlands.

During the visit of the PRC President Xi Jinping to the Netherlands in March 2014, a joint statement has been issued by the two countries to further enhance the economic co-operation in a wider range that includes more exports of Dutch dairy products to the PRC. The Group believes that the New Policies and the success in obtaining the renewed production license of Ausnutria China together with the grant of the import license to the above subsidiaries will create more opportunities and increase the competitiveness which will facilitate the long term growth of the Group.

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

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

In 2011, the Group invested in the New IT Systems including 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 IT 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 milk powder 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 for 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 advanced to the Ausnutria Hyproca Group a shareholder loan of EURO 7.0 million (equivalent to approximately RMB58.8 million) and EURO 10.0 million (equivalent to approximately RMB84.0 million) in June 2013 and December 2013, respectively, to finance the capital expenditure plans, including but not limited to the acquisition of approximately 140,000 square meters of land in the Netherlands for the intended construction of a new factory in Heerenveen, the Netherlands and the upgrade of the milk powder production towers and the purchases of new machineries for the increase in packaging capacity of the Ausnutria Hyproca Group (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, respectively.

Though the CAPEX Plan has led to temporary interruption in the production of the Ausnutria Hyproca Group as the two milk production towers were temporarily suspended from production for a few months in 2013 and 2014, the production capacity of the Ausnutria Hyproca Group is expected to increase with the operating performance gradually recovering after the CAPEX Plan completed in June 2014.

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 one of the leading producers of goat milk products in the world. The Group has commenced the launch of Kabrita Series products in the PRC since the fourth quarter of 2011. In the same year and 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 and 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 Food and Drug Administration ("**FDA**") for the sale of Kabrita Series of products in the United States.

The Group has also established subsidiaries with independent third parties for the sales of Kabrita Series products in Russia, the Middle East, the United States and Canada in 2012, 2013 and 2014, respectively. The Group will continue to launch Kabrita Series products in other major countries with the aim of becoming one of the market leaders of goat milk based paediatric nutrition products in the long run by leveraging on the studies and clinical trial results conducted by (i) the Medical School of Beijing University and (ii) the in-house research and development team in the Netherlands and in North America during the course of applying the approval with the FDA.

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, and the more stringent rules and regulations imposed by the PRC government which has created uncertainties and a temporary interruption on the dairy industry in the PRC, including the Group, the Board believes that the Group is well positioned to face the challenges ahead and is optimistic about its future.

Chairman's Statement

Production and distribution tracking systems

Resulting from the investment of the New IT Systems 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 satisfy the 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 if there is any quality issue arisen subsequently. Furthermore, 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.

Strengthening of the corporate governance

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 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 continued to be picking up and improving in 2013. On the other hand, the operating performance of the Ausnutria Hyproca Group is expected to slow down due to the constraints of its current production capacity and the temporary interruption caused by the implementation of the CAPEX Plan.

Going further into 2014, the New Policies have created uncertainties and temporary interruption on the dairy industry in the PRC, including the Group, as distributors had been more conservative in placing orders during this period pending for further clarification and details regarding the execution of the New Policies. Although the above temporary interruption has resulted in a slowdown in sales and operating performance of the Group in the first few months of 2014, the Directors believes that the Group's operation has returned to normal and the above New Policies will lead to a boost in the demand for paediatric milk powder, benefiting the paediatric milk powder manufacturers, who can meet the national standard under the New Policies, including the Group, in the medium to long run.

APPRECIATION

I would like to take this opportunity to thanks the Group's customers, suppliers, distributors, business associates and Shareholders for their continuous support and trust. In addition, my heartfelt appreciation to the Board, senior management and all the staff for their dedication and hard work throughout these challenging periods.

Yan Weibin
Chairman

Changsha City, PRC
27 June 2014

Management Discussion and Analysis

FINANCIAL REVIEW

Overall performance

	2012 RMB'M	2011 RMB'M
REVENUE:		
– Ausnutria Group	486.7	417.3
– Ausnutria Hyproca Group#	874.9	211.9
	1,361.6	629.2
Less: Intersegment sales	(10.6)	–
– Group (including the Ausnutria Hyproca Group)	1,351.0	629.2
GROSS PROFIT:		
– Ausnutria Group	253.2	193.7
– Ausnutria Hyproca Group#	73.1	25.8
	326.3	219.5
Less: Intersegment results	(0.1)	–
– Group (including the Ausnutria Hyproca Group)	326.2	219.5
	%	%
GROSS MARGIN:		
– Ausnutria Group	52.0	46.4
– Ausnutria Hyproca Group#	8.4	12.2
– Group (including the Ausnutria Hyproca Group)	24.1	34.9
PROFIT ATTRIBUTABLE TO EQUITY OWNERS OF THE PARENT:		
– Ausnutria Group	70.3	38.1
– Ausnutria Hyproca Group#	(3.8)	6.2
– Group (including the Ausnutria Hyproca Group)	66.5	44.3

Formed part of the Group since 17 October 2011

Management Discussion and Analysis

Revenue – Overall

For the Year 2012, the Group recorded revenue of approximately RMB1,351.0 million, representing an increase of approximately RMB721.8 million, or approximately 114.7%, from RMB629.2 million for the Year 2011. The increase is mainly attributable to (i) the increase in sales of the Ausnutria Group by approximately RMB69.4 million; and (ii) the contribution of revenue of approximately RMB874.9 million (Period 2011: approximately RMB211.9 million) from the Ausnutria Hyproca Group which has been consolidated into the Group since 17 October 2011.

Revenue – Ausnutria Group

During the Year 2012, A-choice Series, Best-choice Series, Allnutria Series and Allnutria Organic Series, continued to be the major series of paediatric milk formula of the Ausnutria Group which are all imported from overseas and are designed to target consumers for premium products in the PRC. During the Year 2012, the Ausnutria Group has also commenced the launch of another imported cow milk infant formula, namely the Puredo Series, which is targeted to penetrate into different sectors of the PRC. The revenue derived from the Puredo Series of products in the PRC which was launched in June 2012 was approximately RMB30.7 million (Year 2011: Nil) for the Year 2012.

The increase in the revenue of the Ausnutria Group was mainly due to the improvement in the financial performance of Ausnutria China following the restructuring of its distribution network in 2010/2011 as well as the contribution from a series of new products under different infant formula that were launched during the Year 2012. Coping with the continuous increase in demand for infant milk formula in the PRC, the sales performance of the Ausnutria Group is gradually picking up and improving.

Revenue – Ausnutria Hyproca Group

The Ausnutria Hyproca Group is principally engaged in the dairy industry from research and development, milk collection, processing, production and packaging of dairy products with production facilities and milk sources in the Netherlands for own labels as well as under original equipment manufacturing ("**OEM**") and private label arrangements. The OEM and private label arrangements are serving cow milk dairy products to customers in the Netherlands and other overseas countries, such as the PRC, Taiwan, other European and Middle East countries. The Ausnutria Hyproca Group also sells paediatric milk formula under its own brands (*Kabrita for goat infant formula ("**Kabrita**")* in the PRC, Russia and the Middle East countries and *Neolac for cow infant formula* in the PRC). The Ausnutria Hyproca Group is one of the leading producers and distributors of goat milk products in the world.

For additional information, an analysis of the revenue of the Ausnutria Hyproca Group for the Year 2012 and the Year 2011 (as if it was had been acquired since 1 January 2011) is as follows:

	2012 EURO'M	2011 EURO'M	2012 RMB'M equivalent	2011 RMB'M equivalent
Revenue of the Ausnutria Hyproca Group	107.5	87.7	874.9	791.2

The increase in the revenue of the Ausnutria Hyproca Group for the Year 2012 was primarily attributed to (i) the increase in the revenue of Kabrita to approximately RMB36.2 million, representing an increase of approximately RMB27.6 million, or approximately 320.9%, from the Year 2011, as the product was launched in the fourth quarter of the Year 2011 in the PRC; and (ii) the continuous increases in the 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 and the reputation of good quality products delivered by the Ausnutria Hyproca Group that was built up since the establishment of the Ausnutria Hyproca Group in 1897.

Gross profit – Overall

The Group's gross profit for the Year 2012 was approximately RMB326.2 million, representing an increase of approximately RMB106.7 million, or approximately 48.6%, when compared with the Year 2011. The gross profit margin of the Group for the Year 2012 decreased from approximately 34.9% for the Year 2011 to 24.1%, primarily due to the dilutive effect as a result of the change in sales mix after consolidating the full year results of the Ausnutria Hyproca Group which has been consolidated into the Group since 17 October 2011 and the impact of the temporary interruption in the production of the Ausnutria Hyproca Group.

Gross profit – Ausnutria Group

Gross profit of the Ausnutria Group for the Year 2012 amounted to approximately RMB253.2 million, representing an increase of approximately RMB59.5 million, or approximately 30.7%, from the Year 2011. The gross margin of the Ausnutria Group for the Year 2012 increased from approximately 46.4% for the Year 2011 to 52.0%. In 2010/2011, Ausnutria China has undergone a restructuring of its sales channel and have granted bigger discounts to its distributors as an incentive for their promotion of Ausnutria China's products in the Year 2011. In view that the sales of Ausnutria China has been gradually improving since the implementation of the above strategies, Ausnutria China reduced its discounts granted to distributors during the Year 2012 and the gross profit margin of the Ausnutria Group improved to the 2010 level of approximately 51.2%.

Gross profit – Ausnutria Hyproca Group

For additional information, an analysis of the gross profit of the Ausnutria Hyproca Group for the Year 2012 and the Year 2011 (as if it had been acquired since 1 January 2011) is as follows:

	2012 EURO'M	2011 EURO'M	2012 RMB'M equivalent	2011 RMB'M equivalent
Gross profit:				
– Ausnutria Hyproca Group	9.0	10.7	73.1	96.5
	%	%	%	%
Gross profit margin:				
– Ausnutria Hyproca Group	8.4	12.2	8.4	12.2

Management Discussion and Analysis

In July 2012, the Ausnutria Hyproca Group suspended its production temporarily at the request by the Supplier as one of the raw materials that was previously delivered by the Supplier might have been contaminated. As a result of this incident, the Ausnutria Hyproca Group incurred a loss for the Year 2012 amounting to approximately RMB35.0 million (Year 2011: Nil), comprising mainly the write-off of inventories.

As a result of the above incidence, the gross profit margin of the Ausnutria Hyproca Group was adversely affected by approximately 3.0% point. In addition, the Ausnutria Hyproca Group has recognised an impairment loss on inventories of approximately RMB9.0 million (Year 2011: Nil) during the Year 2012, which has further reduced the gross profit margin by another approximately 1% point, as a result of the write-off of certain inventories that failed to meet the internal quality standards of the Ausnutria Hyproca Group. Excluding the above impacts, the gross profit margin of the Ausnutria Hyproca Group for the Year 2012 remains to be stable when compared with the Year 2011.

Other income and gains

An analysis of other income and gains is as follows:

	Notes	2012 RMB'M	2011 RMB'M
Interest income on held-to-maturity investments	(i)	5.8	10.3
Interest income on bank deposits	(ii)	12.3	5.0
Government grants		1.0	1.7
Insurance compensation income	(iii)	–	8.0
Others		3.1	1.0
		22.2	26.0

(i) During the periods from 24 March 2010 to 17 March 2011, and from 29 April 2011 to 25 April 2012, the Group has entered into two entrusted fund management agreements with independent third parties, pursuant to which, Ausnutria China entrusted a fund of RMB200.0 million (Year 2011: RMB200.0 million) to purchase entrusted loans from independent third parties. The entrusted loans investment was reduced from RMB200.0 million to RMB60.0 million for another one year upon its maturity on 25 April 2012. The Group invested in these treasury products offered by banks with a sole objective of maximising 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 2012 and the Year 2011 amounted to approximately RMB5.8 million and RMB10.3 million, respectively. The decrease in interest income on held-to-maturity investments was because the Group has adopted a more prudent treasury approach since then by reducing its investment in entrusted loans and to place a larger portion of the Group's excess cash in time deposits with reputable financial institutions in the PRC instead.

(ii) The increase in interest income was a result of the continuous improvements in the bank balances from the operating activities of the Group and the change in treasury approach of the Group by placing a bigger portion of its excess cash in time deposits when compared with the Year 2011. For the Year 2012, the Group recorded an increase in cash flows from operating activities by approximately 32.0% to approximately RMB168.1 million (Year 2011: RMB127.4 million). Also, 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) 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 plant of the Ausnutria Hyproca Group. Compensation income for the Year 2011 represented the compensation received from the insurance company of approximately RMB8.0 million to cover the incidental losses due to the accident.

Selling and distribution costs

An analysis of selling and distribution costs is as follows:

	2012 RMB'M	2011 RMB'M
Ausnutria Group:		
– Advertising and promotion	61.0	72.3
– Others	58.9	44.2
	119.9	116.5
Ausnutria Hyproca Group	36.5	10.8
	156.4	127.3

Selling and distribution costs mainly comprised advertising and promotion expense, salaries and travelling costs of the sales and marketing staff and delivery costs. Selling and distribution costs represented approximately 11.6% and 20.2% of revenue for the Year 2012 and the Year 2011, respectively.

Selling and distribution costs of the Ausnutria Group for the Year 2012 remains stable when compared with that of Year 2011 and this was due to the net effect of (i) the continuous decrease in advertising and promotion expense as the Group has continued its marketing strategy by placing more emphasis in regional promotion and marketing activities by means of holding exhibitions and local seminars provided to parents instead of launching the more costly television advertising activities; and (ii) the increase in other selling and distribution costs as a result of the setting up of new sales channel and establishing the new sales team for the launch of the Puredo Series during the Year 2012.

The selling and distribution costs of the Ausnutria Hyproca Group represented approximately 4.2% and 5.1% of the Ausnutria Hyproca Group's revenue for the Year 2012 and the Period 2011, respectively. Included in the selling and distribution costs of the Ausnutria Hyproca Group, approximately 50.4% (Period 2011: approximately 46.9%) was related to the sales and marketing costs of the Kabrita Series of products in the PRC. The increase in the selling and distribution costs of the Ausnutria Hyproca Group was also attributed to the full year consolidation effect of the Ausnutria Hyproca Group.

Management Discussion and Analysis

Administrative expenses

An analysis of the administrative expenses is as follows:

	2012 RMB'M	2011 RMB'M
Ausnutria Group	46.7	40.6
Ausnutria Hyproca Group	27.8	3.8
	74.5	44.4

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

The increase in the administrative expenses of the Ausnutria Group was primarily attributed to (i) the increase in staff costs as a result of the general increase in salary; (ii) the increase in depreciation charges on the New IT System which was put into use since the fourth quarter of 2011; (iii) the increase in depreciation charges on buildings and leasehold improvements after Ausnutria China relocated its office from the factory to its existing office premises in late 2011 and early 2012; and (iv) the increase in auditors' remuneration.

The increase in the administrative expenses of the Ausnutria Hyproca Group was primarily attributed to the full year consolidation effect of the Ausnutria Hyproca Group and the increase in headcounts on both the managerial and administrative staff to cope with the continuous increase in the scale of operations of the Ausnutria Hyproca Group.

Other expenses

An analysis of the other expenses is as follows:

	2012 RMB'M	2011 RMB'M
Ausnutria Group	18.6	17.5
Ausnutria Hyproca Group	9.2	2.0
	27.8	19.5

Other expenses mainly comprised legal and professional fees incurred as a result of the Unresolved Issues of approximately RMB14.1 million (Year 2011: Nil); write-off of trade receivables attributed to a number of distributors who have ceased trading with Ausnutria China of approximately RMB1.9 million (Year 2011: Nil); and exchange losses arising from the translation of bank deposits that were denominated in EURO and Hong Kong dollars ("**HK$**") to Renminbi ("**RMB**") of approximately RMB0.2 million (Year 2011: approximately RMB9.5 million).

The Year 2011's other expenses also included the transaction costs in relation to the subscription and the acquisition of the Ausnutria Hyproca of a total of approximately RMB7.3 million.

Finance costs

The finance costs for the Year 2012 amounted to approximately RMB4.3 million (Year 2011: approximately RMB1.4 million), representing the interest on bank and other borrowings that were attributable to the Ausnutria Hyproca Group. The bank and other borrowings outstanding as at 31 December 2012 of approximately RMB134.6 million remained to be stable when compared with the amount outstanding as at 31 December 2011 of approximately RMB134.1 million. The increase in finance costs was mainly attributable to the full year effect as a result of the consolidation of the Ausnutria Hyproca Group in October 2011. The Ausnutria Group did not have any borrowings for the Year 2012 and the Year 2011.

Income tax expenses

The profits generated by the Group were mainly derived from its 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. 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.

In March 2014, Ausnutria China succeeded in renewing its High-tech Enterprise qualification, upon which Ausnutria China will continue to entitle to the preferential CIT tax rate of 15%, for another three years from 1 January 2013.

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

	The Netherlands		Mainland China		Others		Group	
	2012	2011	2012	2011	2012	2011	2012	2011
Profit/(loss) before tax (RMB'M)	(1.7)	27.6	108.9	56.4	(21.8)	(12.1)	85.4	71.9
Income tax expense (RMB'M)	(0.4)	4.4	17.8	17.1	–	–	17.4	21.5
Effective income tax rate (%)	(24.1)	15.7	16.3	30.3	–	–	20.4	29.8

Most of the profits generated by the Group for the Year 2012 were derived in Mainland China. The effective income tax rate for profit generated from Mainland China for the Year 2012 at 16.3% was slightly above the preferential CIT tax rate of 15% as part of the profit was contributed by the other operating subsidiary established in the PRC for the sale of Kabrita products which are subject to the standard CIT rate of 25%. The effective income tax rate for profit generated from Mainland China for the Year 2011 at 30.3% was primarily due to the overpayment of CIT in the Year 2011 arising from the overstatement of profit before tax of Ausnutria China as a result the Unresolved Issues, which may not be recoverable.

The Group did not have any assessable profits derived from the operations in the Netherlands for the Year 2012. The effective income tax rate for profit generated from the Netherlands for the Year 2011 (excluding the share of profit when the Ausnutria Hyproca Group was accounted for as an associate of the Group of approximately RMB4.8 million, the gain on remeasurement of the approximately 19.44% of the enlarged equity interests of approximately RMB14.1 million and those tax losses attributable to Ausnutria Dutch that was not recognised of approximately RMB2.0 million) of approximately 25.6% was in line with the standard CIT rate in the Netherlands.

The losses before tax recognised from other jurisdictions mainly represented professional fees incurred for the handling of the Unresolved Issues and the administrative expenses incurred by the Company. As the Company (which was incorporated solely for investment holding purpose) did not generate any assessable profits for the Year 2012 and the Year 2011, the expenses incurred were not tax deductible.

Profit attributable to equity holders of the Company

The Group's profit attributable to equity holders of the Company for the Year 2012 amounted to approximately RMB66.5 million, representing an increase of approximately 50.1% when compared with the Year 2011. The increase in net profit was mainly contributed by the growth in the operating performance of the Ausnutria Group and the effective cost controls on the marketing activities and the administrative expenses of the Group which was partly offset by the adverse impact of the temporary interruption on the production of the Ausnutria Hyproca Group and the additional professional fees incurred as a result of the Unresolved Issues.

Analysis on Consolidated Statement of Financial Position

Non-current assets

As at 31 December 2012, the total non-current assets of the Group amounted to approximately RMB406.3 million (31 December 2011: approximately RMB392.6 million), mainly comprised property, plant and equipment of approximately RMB264.3 million (31 December 2011: approximately RMB251.6 million), goodwill arising from the acquisition of Ausnutria Hyproca of approximately RMB84.5 million (31 December 2011: approximately RMB82.9 million), other intangible assets of approximately RMB30.1 million (31 December 2011: approximately RMB31.3 million) and deferred tax assets of approximately RMB25.3 million (31 December 2011: approximately RMB22.9 million).

The increase in the non-current assets of the Group as at 31 December 2012 was principally due to the increase in property, plant and equipment of the Ausnutria Hyproca Group as part of its continuous production expansion plan to cope with the increasing demand of its products from the worldwide customers. The amount of capital expenditures invested by the Ausnutria Hyproca Group for the Year 2012 amounted to approximately RMB32.5 million (Year 2011: approximately RMB8.4 million). Other non-current assets position of the Group as at 31 December 2012 remained fairly stable when compared with that as at 31 December 2011.

Current assets

As at 31 December 2012, the total current assets of the Group amounted to approximately RMB1,182.1 million (31 December 2011: approximately RMB1,144.9 million), mainly comprised inventories of approximately RMB190.9 million (31 December 2011: approximately RMB261.6 million), trade receivables of approximately RMB122.6 million (31 December 2011: approximately RMB119.8 million), bills receivable of approximately RMB18.7 million (31 December 2011: approximately RMB58.0 million), held-to-maturity investments of RMB60.0 million (31 December 2011: RMB200.0 million), time deposits with banks in the PRC of RMB420.0 million (31 December 2011: RMB110.0 million) and cash and cash equivalents of approximately RMB282.7 million (31 December 2011: approximately RMB342.2 million).

Inventories

An analysis of the inventories is as follows:

	2012 RMB'M	2011 RMB'M
Ausnutria Group	51.3	165.2
Ausnutria Hyproca Group	139.6	96.4
	190.9	261.6

The decrease in inventories as at 31 December 2012 was primarily attributed to the decrease in inventory level of the Ausnutria Group as a result of (i) the temporary delay in the supply of one of the major products of the Ausnutria Group due to the temporary shortage of one of the major ingredients in the market; and (ii) the shift of one of the products from other suppliers to the Ausnutria Hyproca Group in the fourth quarter of 2012 which was partly in the process of production and partly in transit as at 31 December 2012. The decrease was partly offset by the increase in inventory level of the Ausnutria Hyproca Group to meet the increasing demand for its products from its worldwide customers, including Ausnutria China.

Excluding the impact of the Ausnutria Hyproca Group, the inventory turnover days of the Ausnutria Group as at 31 December 2012 was approximately 169 days (31 December 2011: approximately 238 days)). The Ausnutria Group normally places its purchase orders with suppliers three to six months in advance of delivery. As a result of the lower than expected demand and hence sales in the PRC in the fourth quarter of 2011, the inventory level reached a comparatively high level as at 31 December 2011. Since 2012, the Group adopted a more prudent approach in placing its orders with distributors so as to digest the inventories carry forward from the Year 2011, the inventory level gradually return to its normal level and the inventory turnover days as at 31 December 2012 decreased by 69 days when compared with 31 December 2011.

The inventory turnover days of the Ausnutria Hyproca Group as at 31 December 2012 was approximately 54 days (31 December 2011: approximately 39 days) and was in line with the stock planning arrangement.

Trade and bills receivables

An analysis of the trade and bills receivables is as follows:

	2012 RMB'M	2011 RMB'M
Trade receivables:		
– Ausnutria Group	35.4	22.6
– Ausnutria Hyproca Group	87.2	97.2
	122.6	119.8
Bills receivable	18.7	58.0
	141.3	177.8

The decrease in trade and bills receivables as at 31 December 2012 was mainly attributable to the decrease in bills receivable as at 31 December 2012 of approximately RMB39.3 million when compared with 31 December 2011.

The trade receivable turnover days of the Ausnutria Group and the Ausnutria Hyproca Group as at 31 December 2012 was approximately 22 days (31 December 2011: approximately 23 days) and approximately 39 days (31 December 2011: approximately 34 days), respectively, which remained fairly stable and were in line with the credit periods granted by the Group to its customers.

Held-to-maturity investments

The balance as at 31 December 2012 represented an entrusted loan investment of RMB60.0 million (31 December 2011: RMB200.0 million), maturing on 25 April 2013. The decrease in held-to-maturity investments was due to the Group's adoption of a more prudent treasury approach since then and switching from investments in entrusted loans to time deposits with reputable financial institutions in the PRC instead.

The entrusted loan together with its interest matured in May 2013.

Time deposits and cash and cash equivalents

As at 31 December 2012, the Group's cash and bank balances and time deposits amounted to approximately RMB702.7 million, representing an increase of approximately RMB250.5 million, or approximately 55.4%, from RMB452.2 million as at 31 December 2011, of which approximately HK$174.3 million (31 December 2011: approximately HK$250.9 million) represented the unutilised portion of the proceeds from the IPO.

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

Current liabilities

As at 31 December 2012, the total current liabilities of the Group amounted to approximately RMB440.6 million (31 December 2011: approximately RMB441.6 million), mainly comprised trade payables of approximately RMB104.7 million (31 December 2011: approximately RMB84.3 million), other payables and accruals of approximately RMB229.7 million (31 December 2011: approximately RMB259.5 million) and interest-bearing bank loans and other borrowings of approximately RMB95.6 million (31 December 2011: approximately RMB91.4 million).

Trade payables

An analysis of the trade payables is as follows:

	2012 RMB'M	2011 RMB'M
Ausnutria Group	9.0	21.3
Ausnutria Hyproca Group	95.7	63.0
	104.7	84.3

The increase in trade payables of the Group as at 31 December 2012 was mainly attributable to the increase in the amount of procurement as a result of the increase in the scale of production of the Ausnutria Hyproca Group which was driven by the continuous increase in worldwide demand for dairy products originated in the Netherlands. The trade payables of the Ausnutria Group as at 31 December 2012 decreased by approximately RMB12.3 million to approximately RMB9.0 million was a result of the temporary delay in shipments from some of its suppliers as mentioned above.

The trade payable turnover days of the Ausnutria Group and the Ausnutria Hyproca Group as at 31 December 2012 was approximately 24 days (31 December 2011: approximately 25 days) and approximately 37 days (31 December 2011: approximately 26 days), respectively. The slight increase in the trade payable turnover days of the Ausnutria Hyproca Group was a result of the increase in average credit periods granted by the major suppliers due to increasing in quantity of raw materials purchased by the Ausnutria Hyproca Group.

Other payables and accruals

Other payables and accruals mainly represented advances and deposits from customers of a total of approximately RMB100.9 million (31 December 2011: approximately RMB151.4 million), deferred income of RMB46.9 million (31 December 2011: approximately RMB39.4 million), accrued salaries and welfare of approximately RMB21.7 million (31 December 2011: approximately RMB19.5 million), accrued advertising expenses of approximately RMB6.1 million (31 December 2011: approximately RMB8.8 million), accrued utility charges of approximately RMB8.5 million (31 December 2011: approximately RMB2.8 million), accrued delivery charges of approximately RMB4.9 million (31 December 2011: approximately RMB1.6 million), accrued professional fees and travelling expenses of the sales and marketing staff and other payables of a total of approximately RMB31.7 million (31 December 2011: approximately RMB36.0 million).

In prior years, Ausnutria China evaluated the performance of its distributors partly based on the amount of funds received from its distributors to be determined on an annual basis. In order to meet the annual target set out between Ausnutria China and its respective distributors, some of the distributors would advance cash to Ausnutria China in order to meet their targets particularly near the year end period so as to enjoy bigger sales target incentives and/or greater marketing support from Ausnutria China in the following year. The orders placed by the distributors and the actual physical delivery of the products to the distributors would depend on their then inventory level and the expected upcoming sales of respective distributors from time to time. As a result of the relatively lower amount of revenue being recognised in the Year 2011 when compared with the amount of funds received, the amount of advances from distributors (i.e. customers) relatively increased. Commencing in the Year 2012, Ausnutria China has revised the policy with its distributors whereby the performance of its distributors were measured based on the value of goods despatched. As a result of the above change in evaluation policy, the advances made by distributors decreased when compared with that as at 31 December 2011.

Interest-bearing bank loans and other borrowings

The interest-bearing bank loans and other borrowings as at 31 December 2012 and 2011 were all attributed to the Ausnutria Hyproca Group for the financing of its daily working capital and capital expenditures.

Non-current liabilities

As at 31 December 2012, the total non-current liabilities of the Group amounted to approximately RMB84.0 million (31 December 2011: approximately RMB85.3 million), mainly comprised interest-bearing bank loans and other borrowings of approximately RMB39.0 million (31 December 2011: approximately RMB42.7 million), accruals for defined benefit plan of approximately RMB17.4 million (31 December 2011: approximately RMB13.2 million) and deferred tax liabilities of approximately RMB27.6 million (31 December 2011: approximately RMB28.9 million).

Interest-bearing bank loans and other borrowings

The interest-bearing bank loans and other borrowings as at 31 December 2012 and 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 RMB17.4 million (31 December 2011: approximately RMB13.2 million) were determined based on the actuarial valuations as at 31 December 2012 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 2012 and the fair value adjustment arising from the acquisition of Ausnutria Hyproca of a total of approximately RMB21.4 million (31 December 2011: approximately RMB22.7 million); and (ii) the withholding tax amounting to approximately RMB6.2 million (31 December 2011: approximately RMB6.2 million) calculated at 10% on the distributable profits of Ausnutria China that was expected to be distributed in the foreseeable future.

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.

Non-controlling interests

As at 31 December 2012, the balance mainly represented the 49% equity interests in Ausnutria Hyproca owned by DDI. The balance as at 31 December 2011 also included the 8.4% equity interests in Hyproca Lyempf which was acquired by the Ausnutria Hyproca Group from an independent third party at a consideration of EURO 2.8 million (equivalent to approximately RMB23.0 million) on 19 October 2012.

Analysis on Consolidated Statement of Cash Flows

An extract of the cash flows information of the Group for the Year 2012 and the Year 2011 is as follows:

	2012 RMB'M	2011 RMB'M
Net cash flows from operating activities	168.1	127.4
Net cash flows used in investing activities	(205.3)	(253.0)
Net cash flows used in financing activities	(23.5)	(168.5)
Net decrease in cash and cash equivalents	(60.7)	(294.1)

Net cash flows from operating activities

Net cash flows from operating activities of the Group for the Year 2012 was approximately RMB168.1 million (Year 2011: RMB127.4 million), while the profit before tax for that year was approximately RMB85.4 million (Year 2011: RMB71.9 million).

The net difference of approximately RMB82.7 million (Year 2011: approximately RMB55.5 million) between the profit before tax and net cash flows from operating activities was mainly attributable to (i) the decrease in inventories of approximately RMB46.3 million (Year 2011: increase of approximately RMB39.7 million); (ii) the decrease in trade and bills receivables of approximately RMB36.1 million (Year 2011: increase of approximately RMB41.1 million); which was offset by (iii) the increase in prepayments, deposits and other receivables of RMB17.0 million (Year 2011: decrease of approximately RMB71.9 million). Changes in cash flows from operating activities for the Year 2011 also included the increase in other payables and accruals of approximately RMB62.7 million as a result of the increase in advances and deposits from customers.

Net cash flows used in investing activities

The net cash flows used in investing activities of the Group for the Year 2012 of approximately RMB205.3 million (Year 2011: approximately RMB253.0 million) mainly represented (i) the net proceeds received from the investments in the entrusted loans of RMB140 million (Year 2011: Nil); (ii) the net increase in the Group's time deposits with banks in the PRC by RMB310.0 million (Year 2011: RMB110.0 million); and (iii) the purchases of property, plant and equipment of approximately RMB40.3 million (Year 2011: approximately RMB15.6 million), mainly for the improvement in the production capacity of the Ausnutria Hyproca Group. Cash used in investing activities of the Group for the Year 2011 also included the subscription and the acquisition of a total of the 51% equity interests in Ausnutria Hyproca of approximately RMB128.8 million.

Net cash flows used in financing activities

The net cash flows used in financing activities of the Group for the Year 2012 of approximately RMB23.5 million (Year 2011: approximately RMB168.5 million) mainly represented the acquisition of 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 RMB23.0 million). Net cash flows used in financing activities for the Year 2011 mainly represented the repurchase of the shares of the Company of a total consideration of RMB134.5 million and the payment of dividend of RMB24.8 million.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

There were no material investment and acquisitions and disposals of subsidiaries and associated companies during the Year 2012.

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGED OF ASSETS

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

	As at 31 December	
	2012	2011
Cash and cash equivalents (RMB'M)	282.7	342.2
Time deposits (RMB'M)	420.0	110.0
Total bank loans and other borrowings (RMB'M) (1)	134.6	134.1
Total assets (RMB'M)	1,588.4	1,537.5
Gearing ratio (%) (2)	8.5	8.7

Notes:

(1) All the Group's bank loans and other borrowings as at 31 December 2012 are attributed to the Ausnutria Hyproca Group and are denominated in EURO.

(2) Calculated as a percentage of total bank loans and other borrowings over total assets. For additional information, if the gearing ratio is calculated based on the net debt divided by the total equity plus the net debt, the Group did not have any net debt at 31 December 2012 (31 December 2011: gearing ratio was 2.7%). Net debt is calculated as the sum of an interest-bearing bank loans and other borrowings, trade payables and other payables and accruals, less time deposits and cash and cash equivalents.

As at 31 December 2012, the Ausnutria Hyproca Group had pledged its land and buildings, plant and machineries, inventories and trade receivables with a total carrying value of EURO 42.9 million, equivalent to approximately RMB357.1 million (31 December 2011: approximately EURO 41.5 million, equivalent to approximately RMB338.9 million) for the banking facilities granted to the Ausnutria Hyproca Group.

FOREIGN EXCHANGE RISK

The operations of the Group are mainly carried out in the PRC and the Netherlands. During the Year 2012, revenue, cost of sales and operating expenses of the Group are mainly denominated in RMB, 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.

Management Discussion and Analysis

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 values as at each of 31 December 2012 and 2011.

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, held-to-maturity investments, 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 2012, the Group, as lessee, had total future minimum lease payments under non-cancellable operating leases amounting to approximately RMB4.8 million (31 December 2011: approximately RMB0.4 million).

As at 31 December 2012, 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 RMB11.8 million (31 December 2011: RMB8.2 million).

CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any significant contingent liabilities (31 December 2011: Nil).

USE OF PROCEEDS

The Shares were listed on the Main Board of the Stock Exchange on 8 October 2009 with net proceeds from the IPO 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 IPO up to 31 December 2012 was as follows:

	As stated in the Prospectus* HK$'000	Utilised HK$'000	Balance as at 31 December 2012 HK$'000
Invest in upstream operations	246,930	(192,776)	54,154
Expand the Group's distribution network and brand building	246,930	(246,930)	–
Enhance the Group's research and development efforts	82,310	(34,819)	47,491
Introduce new series of organic paediatric nutrition products	82,310	(61,346)	20,964
Establish new production lines and warehouse	82,310	(30,623)	51,687
General working capital	82,310	(82,310)	–
	823,100	(648,804)	174,296

The remaining balance was deposited in reputable financial institutions in the PRC.

* The Directors intend to apply the remaining Net IPO Proceeds in the manner as stated in the prospectus of the IPO (the "**Prospectus**") and as subsequently amended as set out in the announcement of the Company dated 8 September 2010 to place the utilised portion of the Net IPO Proceeds in short term deposits and short term treasury products with licensed banks and authorised financial institutions in Hong Kong and in the PRC.

HUMAN RESOURCES

Number of full-time employees	Mainland China	Hong Kong	The Netherlands	Total
31 December 2012				
Ausnutria Group	530	3	–	533
Ausnutria Hyproca Group	203	–	192	395
	733	3	192	928
31 December 2011				
Ausnutria Group	555	2	–	557
Ausnutria Hyproca Group	111	–	155	266
	666	2	155	823

For the Year 2012, total employee costs, including directors' emoluments, amounted to approximately RMB136.2 million (Year 2011: approximately RMB57.2 million), of which approximately RMB86.6 million (Period 2011: approximately RMB17.3 million) were attributed to the Ausnutria Hyproca Group. The increase in employee costs was mainly due to the full year consolidation effect and the continuous increase in the scale of operations of 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.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

Mr. Qiu Weifa
Mr. Jason Wan
Mr. Chan Yuk Tong

COMPANY SECRETARY

Mr. Wong Wei Hua Derek (redesignated as Company Secretary on 3/12/2012)

AUTHORISED REPRESENTATIVES

Ms. Ng Siu Hung
Mr. Wong Wei Hua Derek

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SPECIAL REVIEW COMMITTEE

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

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISER (As to Hong Kong law)

King & Wood Mallesons

COMPLIANCE ADVISER

Asian Capital (Corporate Finance) Limited (appointed on 3/5/2013)

REGISTERED OFFICE

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

PRINCIPAL PLACES OF BUSINESS

In Mainland China

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

In Hong Kong

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

In the Netherlands

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

STOCK CODE

1717

COMPANY'S WEBSITE

www.ausnutria.com.hk

Directors' and Senior Management's Biographies

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

DIRECTORS

Executive Directors

Mr. Yan Weibin ("Mr. Yan"), aged 48, was appointed as the executive Director on 8 June 2009 and was elected Chairman of the Board on 7 June 2013. Mr. Yan is a shareholder and director of Brave Leader Limited ("**Brave Leader**"), Silver Castle International Limited ("**Silver Castle**") and Ausnutria Holding Co Ltd ("**Ausnutria BVI**"), the substantial shareholders of the Company. He is also a director of a number of the Company's subsidiaries, including Ausnutria China and Ausnutria Hyproca. He joined the Group since the establishment of Ausnutria China in September 2003. Mr. Yan is responsible for leading the Board and making sure it works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. Mr. Yan is also primarily responsible for the overall corporate strategy, planning and business development of the Group. Mr. Yan graduated from Hunan University with a degree in Bachelor of Engineering and MBA. He was a director and the vice president of Hunan Ava Seed Co., Ltd*（湖南亞華種業股份有限公司）("**Hunan Ava Seed**"), a company whose shares are listed on the Shenzhen Stock Exchange, and the chief executive officer and director of Changsha Xin Da Xin Vilmorin Agri-Business Co., Ltd*（長沙新大新威邁農業有限公司）(formerly, Changsha Xin Da Xin Group Company*（長沙新大新集團有限公司）) ("**Changsha Xin Da Xin Group**"), an associate of the Company. Mr. Yan has been a director of Yuan Longping High-tech Agriculture Co., Ltd*（袁隆平農業高科技股份有限公司）("**Longping High-tech**"), a company whose shares are listed on the Shenzhen Stock Exchange, from 2004. He was Longping High-tech's chief executive officer from 2004 to April 2010, the vice chairman and the chief financial officer from April 2010 to December 2011, the chief executive officer and chief financial officer from December 2011 to June 2012 and has become the vice chairman since June 2012. Mr. Yan resigned as the chief executive officer and the chief financial officer (remains as the vice chairman) of Longping High-tech in June 2012.

Mr. Bartle van der Meer ("Mr. van der Meer"), aged 68, was appointed as the executive Director and Chief Executive Officer on 7 June 2013. Mr. van der Meer is one of the founders of Ausnutria Hyproca. He indirectly held 49% equity interests in Ausnutria Hyproca through the shareholding in DDI and has been involved in the strategic management since the establishment of Ausnutria Hyproca in 1994. He has also been a member of the board of directors and chief executive officer of Ausnutria Hyproca since 2012. Mr. van der Meer is primarily responsible for managing and executing the Group's overall business directions and corporate operation decisions. He graduated with a business administration degree in the Netherlands with a major in banking in 1966. He worked for Rabobank, a multinational banking and financial services group in the Netherlands for more than 25 years. He is serving as the executive director of PMH Investments B.V., a private equity which owned 46.55% equity interests in DDI, and Vegelin Group B.V. since 1994. Mr. van der Meer has been the chairman of supervisory board of sc Heerenveen NV (a soccer club which plays in the premier division in the Netherlands) since 1998 to 2012, and a member of Foundation Accell Group (a company listed on Euronext Amsterdam (formerly known as Amsterdam Stock Exchange) since 1998.

Ms. Ng Siu Hung ("Ms. Ng"), aged 45, was appointed as the executive Director on 19 September 2009. Ms. Ng is primarily responsible for the Group's investor relations. She studied Applied English Language at Changsha University and graduated at The University of Westminster, the United Kingdom with a Master of Arts degree in Human Resource Management. She was the representative of a computer network company and then, a manager of a trading company for about 2 years. Ms. Ng has been a director of Hunan Yukai Real Estate Development Co., Ltd*（湖南宇凱房地產有限公司）since 2004. She is the officer of Public Relations of Hunan XinDaXin Co., Ltd*（湖南新大新股份有限公司）. Ms. Ng had been a joint company secretary of the Company from September 2009 to 3 December 2012.

Mr. Wu Yueshi ("Mr. Wu"), aged 56, was the executive Director and Chairman from 8 June 2009 to 7 June 2013. Mr. Wu is a shareholder and director of Brave Leader, Silver Castle and Ausnutria BVI, the substantial shareholders of the Company. He was also a director of a number of subsidiaries of the Company, including Ausnutria China from 8 June 2009 to 7 June 2013. Mr. Wu joined the Group at the establishment of Ausnutria China in September 2003. He was primarily responsible for the overall corporate strategy, planning and business development of the Group. Mr. Wu completed a Master of Business Administration program at the International College of Beijing University, and obtained the Executive Master of Business Administration degree from Fordham University. Prior to joining the Group, he was employed by the Labour Department of Hunan Province（湖南省勞動廳）, and was a director and the chief executive officer of Hunan Ava Seed. Mr. Wu is presently the chairman and a director of Changsha Xin Da Xin Group and also the vice chairman of the Chamber of Commerce and Industry (Hunan)*（湖南省工商業聯合會）. Mr. Wu has been the chairman and a director of Longping High-tech since 2004. Mr. Wu resigned as executive Director and Chairman of the Company and other positions of the Group on 7 June 2013.

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

Directors' and Senior Management's Biographies

Non-executive Director

Mr. Dai Li ("Mr. Dai"), aged 32, was appointed as the non-executive Director on 7 June 2013 and resigned as non-executive Director on 4 March 2014. Mr. Dai graduated from Beijing Institute of Technology with a bachelor degree in science in 2004. He obtained a master degree in international economics, banking and finance at Cardiff University in 2006. He was also awarded a Doctor of Philosophy Degree ("**PhD**") in economics in 2012. Mr. Dai worked in Ausnutria China as a researcher in 2011. His main duty is collecting and analysing information and data in relation to dairy industry. He worked as an assistant in Northland Bank Cooperation, London from March 2012 to October 2012. He then worked as a project manager and a senior researcher in a number of state-owned enterprises. Mr. Dai remained as a consultant of the Company upon his resignation as the non-executive Director due to his personal commitments as an assistant professor in a university and works for the Company on a part-time basis focusing on projects in relation to the future business development of the Group, particularly in the Netherlands.

Independent Non-executive Directors

Mr. Qiu Weifa ("Mr. Qiu"), aged 69, was appointed as the independent non-executive Director ("**INED**") on 19 September 2009. Mr. Qiu graduated from the Central University of Finance and Economics*（中央財政金融學院）and has senior economist qualifications*（高級經濟師）. Mr. Qiu was the vice general manager of the Bank of China (Singapore branch), the alternate general manager of the Bank of Guangdong province (Singapore branch) and the head of branch（行長）of the Bank of China (Hunan province branch). He has over 33 years of experience in the banking sector, holding management positions at various banking institutions. Mr. Qiu was appointed as a member of the SRC to look into the Unresolved Issues raised by EY on 29 March 2012.

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

Mr. Chan Yuk Tong ("Mr. Chan"), aged 52, was appointed as the INED on 19 September 2009. Mr. Chan graduated from the University of Newcastle in Australia with a bachelor's degree in Commerce, and obtained a master's degree in business administration from The Chinese University of Hong Kong. Mr. Chan is a practising fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. Mr. Chan was an audit principal at Ernst & Young and a finance director and sales director at G2000 (Apparel) Limited. Mr. Chan has over 25 years of experience in auditing, accounting, managerial and financial consultation experience. His directorships of publicly listed companies are as follows:

Listed Company	Role	Period
Present engagements:		
FDG Electric Vehicles Limited (formerly known as Sinopoly Battery Limited)	INED	November 2006 to present
Global Sweeteners Holdings Limited	INED	June 2008 to present
Golden Shield Holdings (Industrial) Limited	Non-executive director	June 2014 to present
Ground Properties Company Limited (formerly known as China Motion Telecom International Limited)	INED	November 2013 to present
Kam Hing International Holding Limited	INED	March 2004 to present
Past engagements:		
Anhui Conch Cement Company Limited	INED	June 2006 to May 2012
Asia Cassava Resources Holdings Limited	Executive director	July 2008 to August 2010
BYD Electronic (International) Company Limited	INED	November 2007 to July 2013
Daisho Microline Holdings Limited	INED	September 2004 to August 2013
Great Wall Motor Company Limited	INED	May 2010 to November 2010
Trauson Holdings Company Limited	INED	June 2010 to July 2013 (date of withdrawal of listing)
Vitop Bioenergy Holdings Limited	Executive director	September 2005 to February 2008
	Non-executive director	February 2008 to May 2011
Xinhua Winshare Publishing And Media Co., Ltd.	INED	April 2006 to July 2013

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

Directors' and Senior Management's Biographies

SENIOR MANAGEMENT

Mr. Wong Wei Hua Derek ("Mr. Wong"), aged 42, is the Chief Financial Officer and the Company Secretary of the Company. Mr. Wong has over 18 years of experience in auditing and financial and corporate management. Mr. Wong graduated from York University with a bachelor degree in accounting and a bachelor degree in mathematics. He is a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in July 2011, he was an audit manager with an international accounting firm, the financial controller of a manufacturing group of companies and the general manager of an investment company principally engaged in mining business in Indonesia. Mr. Wong joined the Group as Deputy Chief Financial Officer of the Company in July 2011 and was appointed as the Joint Company Secretary (later redesignated as Company Secretary on 3 December 2012) and the Chief Financial Officer of the Company on 26 September 2011. Mr. Wong has also been appointed as the Chief Financial Officer of Ausnutria China in April 2012.

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

Mr. Dai Zhiyong ("Mr. Dai"), aged 39, was appointed as the executive director of Ausnutria China on 7 June 2013. He joined the Group shortly after the establishment of Ausnutria China on 18 September 2003. Mr. Dai graduated from Xiang Tan University*（湘潭大學）with a degree in Bachelor of Chemistry. Mr. Dai held a management position in a dairy products company for a number of years and has over 10 years of experience in the industry. Mr Dai was employed by Hunan Ava Nanshan Dairy as the vice factory manager, the person in charge of the research and development department and was engaged in milk powder research and development works for Inner Mongolia Ya Ke Shi Ru Factory*（內蒙古牙克石乳品廠）. Mr. Dai is primarily responsible for managing the daily operations of the technical department of the Group and for ensuring the overall compliance status of the Group's new products and its development in the PRC.

Mr. Li Wei ("Mr. Li"), aged 37, is the production controller and the general manager of the production department of Ausnutria China. He joined the Group shortly after the establishment of Ausnutria China on 26 December 2003. Mr. Li graduated from Hunan Agriculture University*（湖南農業大學）with a degree in Bachelor of Food Technique. Prior to joining the Group, Mr. Li held management position at a dairy products company. Mr. Li has 12 years of experience in the dairy industry. He was employed by Hunan Ava Nanshan Dairy as the supervisor of the quality control centre, the external supervisor for quality control and the external vice department head. He has been the general manager of the production department of the Group since December 2003 and is primarily responsible for managing the quality, logistics and production at Ausnutria China.

Directors' and Senior Management's Biographies

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

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

Mr. Ben Busser ("Mr. Busser"), aged 50, is the Managing Director of Hyproca Nutrition B.V. and Neolac Nutrition B.V., both of which are wholly-owned subsidiaries of Ausnutria Hyproca. He joined the Ausnutria Hyproca Group in 2008. Mr. Busser graduated from Deventer Agricultural College in the Netherlands with a bachelor of science in Tropical Animal Husbandry. Mr. Busser has more than 12 years of experience in the marketing and sales of dairy products (infant formulas) and has worked for several multinational dairy companies in the Netherlands. Mr. Busser is a shareholder of DDI.

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

Mr. Alfred Haandrikman ("Mr. Haandrikman"), aged 46, is the manager of the research and development department in Ausnutria Hyproca. He joined Ausnutria Hyproca in November 2012. Mr. Haandrikman graduated with a doctorate degree in Molecular Biology from the Rijksuniversiteit Groningen, in the Netherlands. From 1994 to 2006, he worked as a senior scientist and research and development ("**R&D**") manager in Hercules European Research Centre, the Netherlands. From 2006 onwards, he was appointed as the global R&D director in Lipid Nutrition B.V. and IOI-Loders Croklaan group, a leading company in development of lipids for infant nutrition.

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

Directors' and Senior Management's Biographies

Mr. Gerrit Cornelis Bijlsma ("Mr. Bijlsma"), aged 45, is the Managing Director of Lypack Leeuwarden B.V. ("**Lypack**"). Mr. Bijlsma joined Lypack in February 2007 as plant manager. He was responsible for the finance and sales before he was appointed as the Managing Director of Lypack. Mr. Bijlsma holds a degree in food technology and agro business management and is specialised in quality, operations and general management in the food industry. Before joining Lypack, Mr. Bijlsma worked in the Dutch bakery-industry as a quality and operations manager for over 10 years.

Mr. Robin-Jan de Nerée ("Mr. de Nerée"), aged 40, is the Managing Director of Hyproca Lypack B.V. and heads the global business in the private branded and contract packing activities. Mr. de Nerée joined the sales team as the marketing and sales manager of Hyproca Lypack B.V. since 2006 before he was appointed as the Managing Director. Mr. de Nerée graduated from Enschede University with a Bachelor of Science degree in Chemical and Engineering. Before joining Hyproca Lypack B.V., he was engaged in the product development of cosmetic products, and international sales of private label and contract filling in various industries across Europe and the United States.

COMPANY SECRETARIES

Mr. Wong Wei Hua Derek ("Mr. Wong"), aged 42, was redesignated as Company Secretary on 3 December 2012. Mr. Wong's biographical details are set out under the section headed "Directors' and Senior Management's Biographies – Senior Management" above.

Ms. Ng Siu Hung ("Ms. Ng"), aged 45, was a Joint Company Secretary until 3 December 2012. Ms. Ng's biographical details are set out under the section headed "Directors' and Senior Management's Biographies – Directors – Executive Directors" above.

Corporate Governance Report

The Directors present the corporate governance report for the Year 2012. In addition, the corporate governance report also sets out some of the corporate governance related matters for the year ended 31 December 2013 and for a period thereafter up to the date of this report.

CORPORATE GOVERNANCE PRACTICES

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

The Stock Exchange has revised and renamed the Code on Corporate Governance Practices (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") to Corporate Governance Code (the "**New CG Code**") effective from 1 April 2012. The Board strives to implement the best practices embodies in the CG Code/New CG Code where feasible and as far as practicable.

In the opinion of the Directors, save for the exceptions as set out in the following, the Company has complied with the respective code provisions of the CG Code and the New CG Code during the Year 2012 and up to the date of this report.

1) Delay in publishing the financial reports and convening annual general meetings

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

2) Code provision A.1.8

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

On 26 September 2013, the Company's previous insurance company informed the Company that the directors and officers liability insurance, which was going to lapse on 7 October 2013, would not be renewed as a result of the Suspension and the insurance company was not in a position to undertake a full assessment for the risk exposure. On 7 January 2014, the Company had entered into a new directors and officers liability insurance with another insurance company.

3) Code Provision A.2.7

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

On 1 November 2013, a meeting had been held among the chairman and the non-executive Director (including the INEDs) without the other executive Directors present, to discuss, among other things, the status in relation to the Suspension and the latest development of the Group. No such meeting has been held during the Year 2012 and up to 31 October 2013 due to the unavoidable business engagements of the relevant Directors.

4) **Code provisions A.6.7 and E.1.2**

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

As referred to the section headed "Delay in publishing the financial reports and convening annual general meetings" above, the Company will convene annual general meeting for the years ended 31 December 2012 and 2013 on 19 August 2014.

Internal control review

Apart from the above and save for the findings of the internal control review conducted by PKF as disclosed in the announcement of the Company dated 11 November 2013 (the "**First Stage IC Review**"), in the opinion of the Directors, the Company has complied with the code provisions set out in the CG Code/New CG Code during the Year 2012.

COMPLIANCE ADVISER

The Company has appointed Asian Capital (Corporate Finance) Limited ("**ACCF**") 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. No compliance adviser has been appointed by the Company during the Year 2012.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the Listing Rules as the standards for the Directors' dealings in the securities of the Company. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code for the Year 2012 and up to the date of this report.

BOARD OF DIRECTORS

Responsibilities

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

Board Composition

The Board comprised seven members, including four executive Directors and three INEDs during the Year 2012. Except for the business relationship between Mr. Wu Yueshi and Mr. Yan Weibin in Longping High-tech and Changsha Xin Da Xin Group, the Board members have no financial, business, family or other material/relevant relationships with each other. The Board's composition is formed to be well balanced to ensure strong independence exists across the Board with diversity of skills, expertise, experience and qualifications concerning the Directors. The biographies of the Directors are set out on pages 30 to 33 of this report.

The members of the Board during the Year 2012 were as follows:

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

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

Subsequent to 31 December 2012, the following changes in the Board composition took place:

(a) Mr. Wu Yueshi resigned as executive Director and Chairman on 7 June 2013;

(b) Mr. Yan Weibin was elected as Chairman on 7 June 2013;

(c) Mr. Chen Yuanrong resigned as executive Director and Chief Executive Officer on 7 June 2013;

(d) Mr. Bartle van der Meer was appointed as executive Director and Chief Executive Officer on 7 June 2013; and

(e) Mr. Dai Li was appointed as non-executive Director on 7 June 2013. He resigned as non-executive Director on 4 March 2014.

Subsequent to 31 December 2012, on 1 September 2013, the Company adopted a board diversity policy which recognizes and embraces the benefits of building a diverse and inclusive Board, and agrees to increase diversity at Board level continuously, in order to achieve and maintain a sustainable development and a competitive advantage. Board diversity has been considered from a range of diversity perspectives, including but not limited to gender, age, ethnicity, educational background, professional expertise, industry experience, management function and length of service. These aspects will be considered in determining the optimum composition of the Board and should be balanced appropriately when possible and necessary. The Board must annually discuss and establish measurable objectives for achieving diversity on the Board. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

An annual review of the composition of the Board according to the board diversity policy was recently done on 25 June 2014 by the nomination committee of the Company.

Corporate Governance Report

The Directors as at the date of this report were:

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

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

Delegation by the Board

The Board is responsible for setting the strategic direction and policies of the Group and supervising the management. Some functions, including but not limited to, the monitoring and approval of material transactions, matters involving a conflict of interest for a substantial shareholder or Director of the Company, the approval of the interim and final results and other disclosures to the public or regulators are reserved by the Board for consideration and approval. Matters not specifically reserved to the Board and necessary for the daily management and operation of the Group are delegated to the executive committee of the Board and senior management of the Company.

Executive Directors

All the executive Directors have entered into service agreements with the Company for a term of 3 years and are subject to retirement by rotation and re-election at the annual general meeting (the "**AGM**") of the Company in accordance with the provisions of the articles of association of the Company (the "**Articles of Association**"). Each of them is entitled to a fixed annual Director's fee, a fixed monthly salary (except for Mr. Wu Yueshi and Mr. Yan Weibin who did not receive any monthly salary during the Year 2012) and discretionary bonuses determined by the Board. Such emoluments are determined with reference to his/her experience and contributions to the Group, the Group's performance and profitability, as well as the prevailing market conditions. An executive Director shall not vote on any Board's resolution regarding the amount of his/her emolument and/or bonus (if any).

Chairman and Chief Executive Officer

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

Non-Executive Director and Independent Non-Executive Directors

The non-executive Director and INEDs have the same duties of care and skill and fiduciary duties as the executive Directors. They are expressly identified as such in all corporate communications that disclose the names of the Directors.

The INEDs are experienced professionals with expertise in respective areas of dairy industry and related technical know-how, accounting and finance. With their professional knowledge and experience, the INEDs advise the Company on its operation and management; provide independent opinion on the Company's connected transactions; and participate in various committees' meetings of the Board. The INEDs also provide adequate checks and balance to protect the interests of the Group and the Shareholders as a whole, and to promote the development of the Group.

The non-executive Director and all the INEDs have entered into letters of appointment with the Company for a term of 3 years and 2 years, respectively, and are subject to retirement by rotation and eligible for re-election in accordance with the provisions of the Articles of Association.

The Company has received an annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules and considers that all INEDs to be independent in accordance with the definition of the Listing Rules for the Year 2012 and up to the date of this report.

Appointment, Re-election and Removal of Directors

Article 84 of the Articles of Association provides that all the Directors, including chairman of the Board, are subject to retirement from office at least once every 3 years at each AGM and shall be eligible for re-election. Under Article 83 of the Articles of Association, the office of a Director is liable to be vacated in certain circumstances and the Company may remove any Director by an ordinary resolution at a general meeting as prescribed in Article 83 of the Articles of Association.

Remuneration of Directors and Senior Management

The remuneration of Directors and the members of the senior management by band for the Year 2012 is set out below:

Remuneration bands (HK$)	Number of persons
0 – 1,000,000	13
1,000,001 – 1,500,000	3
1,500,001 – 2,000,000	4
2,000,001 – 2,500,000	2
	22

Further particulars regarding Directors' and chief executive's remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 8 to the financial statements.

Board meetings

The Board meets to discuss the overall strategy as well as the operation and financial performance of the Group from time to time. Directors may participate either in person or through electronic means of communications.

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

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

Directors' Attendance at Board Meetings and Annual General Meeting for the year ended 31 December 2012 and up to the date of this report

	2012 Board Meeting Attendance	2013 Board Meeting Attendance	2014* Board Meeting Attendance	2011** AGM Attendance
Executive Directors:				
Mr. Wu Yueshi (resigned on 7 June 2013)	5/7	2/2	N/A	N/A
Mr. Yan Weibin	7/7	6/6	2/2	1/1
Mr. Chen Yuanrong (resigned on 7 June 2013)	7/7	2/2	N/A	N/A
Ms. Ng Siu Hung	7/7	6/6	2/2	1/1
Mr. Bartle van der Meer (appointed on 7 June 2013)	N/A	2/4	2/2	0/1
Non-executive Director:				
Mr. Dai Li (appointed on 7 June 2013 and resigned on 4 March 2014)	N/A	4/4	1/1	1/1
Independent Non-executive Directors:				
Mr. Qiu Weifa	7/7	6/6	2/2	1/1
Mr. Jason Wan	5/7	6/6	2/2	1/1
Mr. Chan Yuk Tong	7/7	6/6	2/2	1/1

* Up to the date of this report

** Convened on 28 January 2014

None of the meetings set out above was attended by any alternate Director.

Continuous Professional Development

Directors must keep abreast of their collective responsibilities. Newly appointed Directors will receive induction packages containing the duties and responsibilities of directors under the Listing Rules and other applicable rules and regulations.

Moreover, all the Directors are briefed and updated from time to time on the latest legislative and regulatory developments to ensure that they are fully aware of their responsibilities under the Listing Rules, applicable legal and regulatory requirements.

During the Year 2012, the Company organised a formal training session conducted by its Hong Kong legal advisers, King & Wood Mallesons, for the then Directors. The training session covered topics including the New CG Code, the disclosure of price sensitive information, etc. All the then Directors attended the training session.

Moreover, all the Directors have participated in continuous professional development by reading newspapers, journals and updates relating to the Group's business and to the legislative regulatory environments in which the Group operates, directors' duties and responsibilities, etc. All the Directors have provided the Company with their records of training they received during the Year 2012.

In order to ensure that their duties can be properly discharged, the Directors are entitled to seek advice from independent professional advisers whenever deemed necessary by them at the Company's expense.

Corporate Governance Functions

The Board is responsible for determining the policy for corporate governance of the Company and performing the corporate governance duties including:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with Appendix 14 to the Listing Rules (Corporate Governance Code and Corporate Governance Report).

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledged their responsibility for preparing consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant financial period. In preparing the consolidated financial statements for the Year 2012, the Directors ensured that the consolidated financial statements have been prepared in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis. The Directors are also responsible for the timely publication of the consolidated financial statements of the Group.

However, due to the Unresolved Issues, there has been a delay in publishing the Outstanding Financial Results.

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

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

Due to the reason as set out in the "Basis for Disclaimer of Opinion on the Profit and Cash Flows" section in the "Independent Auditors' Report", in view of the disclaimer of its opinion on the Group's consolidated financial statements for the Year 2011 and the fact that EY was unable to perform practical audit procedures to ascertain whether the adjustments of RMB46 million and RMB10 million adjusted to the consolidated statement of comprehensive income for the Year 2012 should be adjusted in 2012 or prior years, any adjustments that might have been found necessary in respect of the above would have a consequential impact on the Group's opening balances of the consolidated financial statements as at 1 January 2012 and the Group's results and cash flows for the Year 2012. In its opinion, EY opined that the Company and the consolidated statements of financial position give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012.

NOMINATION COMMITTEE

The Company has established a nomination committee, which comprises an executive Director and all the three INEDs.

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

During the Year 2012, the nomination committee reviewed the structure, size and composition of the Board and the independence of the INEDs. The nomination committee considered an appropriate balance of diversity perspectives of the Board is maintained.

During the Year 2012 and up to the date of this report, the number of nomination committee meetings held and details of the attendance were as follows:

Committee member	2012 Attendance	2013 Attendance	2014* Attendance
Mr. Wu Yueshi	0/1	N/A	N/A
Mr. Yan Weibin	N/A	1/1	1/1
Mr. Qiu Weifa	1/1	1/1	1/1
Mr. Jason Wan	1/1	1/1	1/1
Mr. Chan Yuk Tong	1/1	1/1	1/1

Note:

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

* Up to the date of this report

REMUNERATION COMMITTEE

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

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

During the Year 2012, the remuneration committee reviewed the remuneration policy and structure of the Company, and the remuneration packages as well as the annual bonuses of the executive Directors and the senior management.

During the Year 2012 and up to the date of this report, the number of remuneration committee meetings held and details of the attendance were as follows:

Committee member	2012 Attendance	2013 Attendance	2014* Attendance
Mr. Wu Yueshi	0/1	N/A	N/A
Mr. Yan Weibin	N/A	0/1	1/1
Mr. Qiu Weifa	1/1	1/1	1/1
Mr. Jason Wan	1/1	1/1	1/1
Mr. Chan Yuk Tong	1/1	1/1	1/1

Notes:

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

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

* Up to the date of this report

AUDIT COMMITTEE

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

During the Year 2012 and up to the date of this report, the number of audit committee meetings held and details of the attendance were as follows:

Committee member	2012 Attendance	2013 Attendance	2014* Attendance
Mr. Chan Yuk Tong *(Chairman)*	1/1	1/1	1/1
Mr. Qiu Weifa	1/1	1/1	1/1
Mr. Jason Wan	0/1	1/1	1/1

* Up to the date of this report

In accordance with its written terms of reference, the audit committee meetings shall be held not less than two times a year to review the interim results and annual results of the Group. As a result of the Unresolved Issues which had resulted in the delay in the issuance of the Outstanding Financial Results, only one audit committee meeting had been held for each of the years ended 31 December 2012 and 2013 and this deviated from the audit committee's terms of reference. Going forward, the Company will convene audit committee meeting at least twice a year with the Company's auditors.

During the meeting for the Year 2012, the audit committee discussed with the external auditors the impact of the Unresolved Issues had on the financial position of the Group and the progress of their audit, reviewed the internal control system of the Group and discussed with the external auditor regarding their re-appointment as the auditors of the Company.

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

SPECIAL REVIEW COMMITTEE

In response to the Unresolved Issues, the Board has put strong emphasis on this, and dealt with the Unresolved Issues promptly on 29 March 2012 by establishing the SRC comprised two of the Company's INEDs, namely Mr. Qiu Weifa and Mr. Chan Yuk Tong, for the purpose of, among other things, investigating into the Unresolved Issues. Details of the works and findings of the SRC are set out in the section headed "Unresolved Issues identified by EY" in the Chairman's Statement of this report.

COMPANY SECRETARY

The Company Secretary is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary is responsible for facilitating the Board process, as well as communication among Board members, with the Shareholders and management. For the Year 2012, the Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training. The biography of the Company Secretary is set out on page 34 of this report, with details of his diversity of skills, expertise, experience and qualifications.

AUDITORS' REMUNERATION

For the Year 2012, the total fee paid or payable in respect of audit and non-audit services provided by the Group's external auditors were as follows:

	2012 RMB	2011 RMB
Audit service	6,238,000	3,922,000
Interim review service	–	460,000
Professional services rendered in connection with the subscription and acquisition of Ausnutria Hyproca	–	1,624,000
	6,238,000	6,006,000

INTERNAL CONTROLS

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

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

As a result of the Unresolved Issues, the Company has engaged PKF, an independent internal control advisor, to carry out an internal control review of the Company and Ausnutria China. Details of the PKF findings and remedial actions carried out by the Company and Ausnutria China are set out in announcement of the Company dated 11 November 2013.

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

In view of the results of the First Stage IC 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.

Subsequent to the reporting period, on 24 March 2014, the Company has engaged PKF to conduct a comprehensive review of the Group's internal control systems, including the Group's internal control components which are not related to the Unresolved Issues and not covered by the First Stage IC Review (the "**Second Stage IC Review**").

PKF has on 27 June 2014 issued the report on the Second Stage IC Review of the Company. Based on the report, PKF opined that, after completing their review on the Group's internal control, the Group maintained, in all material respects, effective internal control as at 31 December 2013, based on the criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. PKF also considered that the Company has put in place effective internal control to meet the obligations of the Listing Rules.

Further details regarding the Second Stage IC Review are set out in the announcement of the Company dated 27 June 2014.

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 the Shareholders' investment and the Group's assets.

SHAREHOLDERS' AND INVESTOR RELATIONS

The Board recognises the importance of maintaining clear, timely and effective communication with the Shareholders and investors. Except for the delay in publishing its 2012 and 2013 interim/annual results and reports, to the best belief of the Board, the Company has published all of its announcements in time in accordance with the Listing Rules. Besides, the Board maintains regular dialogues with institutional investors and analysts to keep them informed of the Group's strategy, operations, management and plans. The Directors and the members of the various Board committees would attend and answer questions raised at the AGM, and significant issues will be put as separate proposed resolutions.

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

The last shareholders' meeting was the AGM held on 28 January 2014 at 8/F., XinDaXin Building A, 168 Huangxing Middle Road, Changsha, Hunan Province, the PRC for approval of, among other thing, the audited consolidated financial statements and the Report of the Directors and of the Auditors for the year ended 31 December 2011, the general mandates to issue shares of the Company, the re-election and re-appointment of Directors and authorizing the Board to fix the Directors' remuneration and emolument. Particulars of the major items considered at the AGM are set out in the circular of the Company dated 24 December 2013. All proposed ordinary resolutions were passed by way of poll at the AGM.

The forthcoming AGM will be held on 19 August 2014. The notice of AGM will be sent to the Shareholders at least 21 clear days and 20 business days before the AGM.

Code provision A.6.7 of the New CG code stipulates that INEDs and other non-executive Directors of the Company should attend general meetings and develop a balanced understanding of the views of shareholders.

To promote effective communication, the Company maintains a website at www.ausnutria.com where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted and available for public access. Investors may write directly to the Company or via email to info@ausnutria.com for any enquiries.

Constitutional Documents

During the Year 2012 and up to the date of this report, there had been no significant change in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS

How Shareholders can convene an Extraordinary General Meeting

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

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

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

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company Secretary by mail at Room 2101, Beautiful Group Tower, 77 Connaught Road Central, Central, Hong Kong. The Company Secretary forwards communications relating to matters within the Board's purview to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and consumer complaints, to the chief executive officer of the Company.

Report of the Directors

The Directors present their report and the audited financial statements for the Year 2012.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company of the Group. The Group is principally engaged in the production, marketing and distribution of paediatric milk formula products. The Group is also engaged in the dairy industry in the Netherlands with activities ranging from research and development, milk collection, processing, production, packaging, marketing and sales of dairy products to customers in the Netherlands and other overseas countries. Details of the principal activities of the Company's subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Year 2012.

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

RESULTS AND DIVIDENDS

The Group's profit for the Year 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 66 to 154 of this report.

The Board does not recommend the payment of any dividends in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on pages 155 to 156 of this report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year 2012 are set out in note 13 to the financial statements.

BANK BORROWINGS

Details of the bank borrowings of the Group are set out in note 27 to the financial statements.

SHARE CAPITAL

There was no movement either in the Company's authorised or issued share capital during the Year 2012.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to the Shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Shares during the Year 2012 and up to the date of this report.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year 2012 are set out in note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company's accumulated losses amounted to approximately RMB25,403,000 (31 December 2011: RMB5,889,000). The Company's share premium account, in the amount of RMB533,856,000 (31 December 2011: RMB533,856,000) as at 31 December 2012, may be distributed under special circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year 2012, sales to the Group's five largest customers accounted for less than 19.5% (2011: 14.5%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 5.7% (2011: 4.1%). Purchases from the Group's five largest suppliers accounted for approximately 23.6% (2011: 84.4%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 6.6% (2011: 49.0%).

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

DIRECTORS

The Directors who were in the office during the Year 2012 were as follows:

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

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

Report of the Directors

Subsequent to 31 December 2012, the changes in the Directors, Chairman and Chief Executive Officer of the Company were as follows:

(a) Mr. Wu Yueshi resigned as executive Director and Chairman on 7 June 2013;

(b) Mr. Yan Weibin was elected as the Chairman on 7 June 2013;

(c) Mr. Chen Yuanrong resigned as executive Director and Chief Executive Officer on 7 June 2013;

(d) Mr. Bartle van der Meer was appointed as executive Director and Chief Executive Officer on 7 June 2013; and

(e) Mr. Dai Li was appointed as non-executive Director on 7 June 2013. He resigned as non-executive Director on 4 March 2014.

In accordance with the Article 84 of the Articles of Association, Mr. Qiu Weifa and Mr. Jason Wan will retire by rotation at the conclusion of the forthcoming AGM and, being eligible, for re-election. An ordinary resolution approving their re-elections will be proposed at the forthcoming AGM.

The Company has received confirmations of independence from each of the INEDs in accordance with Rule 3.13 of the Listing Rules for the Year 2012 and up to the date of this report. The Company considers all of the INEDs to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the Year 2012.

DIRECTORS' SERVICE CONTRACTS

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

Subsequent to 31 December 2012, on 1 November 2013, Mr. Bartle van der Meer and Mr. Dai Li had each entered into a service contract with the Company for a term of 3 years commencing on 7 June 2013 (being the date of their respective appointments) and ending on 6 June 2016.

The three INEDs have each entered into a service contract with the Company for a term of 2 years commencing on 1 October 2011 and ending on 30 September 2013. Subsequent to 31 December 2012, the service contracts of the three INEDs had been renewed for another 2 years commencing 1 October 2013 and ending on 30 September 2015 on substantially the same terms save for the adjustments on their remuneration package.

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

DIRECTORS' REMUNERATION

The Directors' remuneration is determined by the Board, as authorised by the Shareholders at general meeting, with reference to the recommendation by the remuneration committee of the Company after taking in to consideration the Directors' duties, responsibilities and performance and the results of the Group as well as the prevailing market conditions.

DIRECTORS' INTERESTS IN CONTRACTS

Save for the related party transactions set out in note 37 to the financial statements which are not regarded as connected transactions as defined under the Listing Rules, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year 2012.

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

As at 31 December 2012 and as at the date of this report, the interests and short positions of the Directors and chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Name	Number of ordinary share	Nature of interest	Percentage of issued share capital
As at 31 December 2012			
Mr. Wu Yueshi ("**Mr. Wu**") (i)	474,646,000	Interest of a controlled corporation	48.10%
Mr. Chen Yuanrong ("**Mr. Chen**") (ii)	107,000,000	Interest of a controlled corporation	10.84%
Mr. Yan Webin ("**Mr. Yan**") (iii)	474,646,000	Interest of a controlled corporation	48.10%
As at the date of this report			
Mr. Yan(iii)	474,646,000	Interest of a controlled corporation	48.10%
Mr. Bartle van der Meer ("**Mr. van der Meer**") (iv)	213,125,000	Interest of a controlled corporation	21.60%

Notes:

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

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

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

(iv) The shareholding interest of Mr. van der Meer is being held through DDI. DDI is owned as to approximately 46.55% by PMH Investments B.V., which is beneficially owned as to 85% by Mr. van der Meer and 15% by Mr. Durk Andries van der Meer, being the son of Mr. van der Meer. Of these shares, 11,000,000 shares were beneficially held by DDI as at 31 December 2012 and 202,125,000 COA Shares are to be issued by the Company to DDI as the consideration shares upon the exercise of the call option pursuant to the COA dated 7 June 2013.

Save as disclosed above, as at 31 December 2012 and as at the date of this report, none of the Directors and chief executive of the Company had registered an interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the COA Consideration Shares disclosed in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, at no time during the Year 2012 and up to the date of this report were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

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

Name	Number of ordinary shares	Nature of interest	Percentage of issued share capital
As at 31 December 2012			
All Harmony (1)	107,000,000	Registered owner	10.84%
Brave Leader (2)	214,646,000	Registered owner	21.75%
Silver Castle (3)	60,000,000	Registered owner	6.08%
Ausnutria BVI (4)	200,000,000	Registered owner	20.27%
Ms. Xiong Fanyi ("**Mrs. Wu**") (5)	474,646,000	Family interest	48.10%
As at the date of this report			
All Harmony (1)	107,000,000	Registered owner	10.84%
Brave Leader (2)	214,646,000	Registered owner	21.75%
Silver Castle (3)	60,000,000	Registered owner	6.08%
Ausnutria BVI (4)	200,000,000	Registered owner	20.27%
Mr. Chen (1)	107,000,000	Interest of a controlled corporation	10.84%
Mr. Wu (2,3,4)	474,646,000	Interest of a controlled corporation	48.10%
Mrs. Wu (5)	474,646,000	Family interest	48.10%

Notes:

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

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

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

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

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

Save as disclosed above, as at 31 December 2012 and as at the date of this report, no person, other than the Directors, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

Summary of terms

The following is a summary of the principal terms of the share option scheme conditionally approved and adopted by a written resolution passed by all Shareholders on 19 September 2009 (the "**Scheme**"):

(a) Purpose

The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Company.

(b) The participants

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for the Shares at a price calculated in accordance with subparagraph (f) below:

i. any employee or proposed employee (whether full-time or part-time and including any executive Director), consultants or advisers of or to the Company, any of the subsidiaries or any entity ("**Invested Entity**") in which the Company holds an equity interest;

ii. any non-executive Directors (including INEDs), any of the subsidiaries or any Invested Entity;

iii. any supplier of goods or services to the Company or any of the subsidiaries or any Invested Entity;

iv. any customer of the Company or any Invested Entity;

v. any person or entity that provides research, development or other technological support to the Company or any Invested Entity; and

vi. any Shareholder or any of the subsidiaries or any Invested Entity or any holder of any securities issued by the Company or any of the subsidiaries or any Invested Entity,

and for the purposes of the Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Company to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of option under the Scheme.

The basis of eligibility of any of the above classes of participants to the grant of any options shall be determined by the Directors from time to time on the basis of the participants' contribution to the development and growth of the Company.

In order for a person to satisfy the Directors that he is qualified to be (or where applicable, continues to qualify to be) a participant, such person shall provide all such information as the Directors may request for the purpose of assessing his eligibility (or continuing eligibility).

(c) Maximum number of Shares

i. The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time. No options may be granted under any schemes of the Company (or the subsidiary of the Company) if such grant will result in the maximum number being exceeded.

ii. The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Scheme) to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 100,000,000 Shares, being 10% of the total number of Shares in issue at the time dealings in the Shares first commence on the Stock Exchange (excluding the Shares which may be issued pursuant to the exercise of the Over-allotment Option) ("**General Mandate Limit**").

iii. Subject to (i) above and without prejudice to (iv) below, the Company may seek approval of the Shareholders in general meeting to refresh the General Mandate Limit. However, the total number of Shares which may be issued upon exercise of all outstanding options to be granted under the Scheme and any other share option schemes of the Company under the limit as "refreshed" must not exceed 10% of the Shares in issue as of the date of approval of the refreshed limit. Options previously granted under the Scheme and any other share option schemes of the Company (including those outstanding, cancelled or lapsed in accordance with the Scheme and other share option schemes of the Company or exercised options) will not be counted for the purpose of calculating the limit as "refreshed". The Company will send a circular to the Shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules.

iv. Subject to (i) above and without prejudice to (iii) above, the Company may seek separate approval of the Shareholders in general meeting for granting options beyond the General Mandate Limit provided the options in excess of the limit are granted only to participants specifically identified by the Company before such approval is sought. The Company will issue a circular to the Shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules.

(d) Maximum entitlement of each participant and connected persons

i. Unless approved by the Shareholders, the total number of Shares issued and to be issued upon exercise of all outstanding options granted under the Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each participant in any 12-month period must not exceed 1% of the Shares in issue ("**Individual Limit**").

ii. Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders in compliance with the Note to Rule 17.03(4) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and the approval of the Shareholders in general meeting with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before the Shareholders' approval and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under Note (1) to Rule 17.03(9) of the Listing Rules.

iii. In addition to the Shareholders' approval set out in Note (1) to Rule 17.03(3) and Note to Rule 17.03(4) of the Listing Rules, each grant of options to a Director, chief executive or substantial Shareholder or any of their respective associates must be approved by the INEDs (excluding any INED who is the grantee of the options).

iv. Where any grant of options to a substantial Shareholder or an INED or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) under the Scheme or any other share option schemes of the Company to such person in the 12-month period up to and including the date of such grant:

(1) representing in aggregate more than 0.1% of the Shares in issue; and

(2) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million,

such further grant of options must be approved by the Shareholders. The Company must send a circular to the Shareholders. All of the connected persons must abstain from voting in favour at such general meeting. Any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such option must be taken on a poll.

(e) Minimum period of holding an option and performance target

The Directors may, at their absolute discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the options can be exercised upon the grant of an option to a participant.

(f) Subscription price for Shares

The subscription price of a Share in respect of any option granted under the Scheme shall be such price as the Board in its absolute discretion shall determine, provided that such price shall not be less than the highest of (i) the nominal value of the Shares; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant of the option; and (iii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option (which must be a business day). A consideration of HK$1.00 is payable on acceptance of the offer of the grant of an option.

(g) Rights are personal to grantee

An option granted under the Scheme shall not be transferable or assignable and is personal to the grantee.

(h) Time of exercise of option

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms and conditions of the Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day upon which the offer for the grant of the option is accepted but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

(i) Ranking of Shares

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles of Association for the time being in force and will rank pari passu in all respects with the then existing fully paid Shares in issue on the date of exercise of the option and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of exercise of the option other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with reference to a record date falling before the date of exercise of the option. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee of such option has been duly entered on our register of members or the holder thereof.

(j) Period of the Share Option Scheme

Unless terminated by the Company by resolution in general meeting, the Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Scheme becomes unconditional.

Present status of the Share Option Scheme

As at the date of this report, no option has been granted or agreed to be granted under the Scheme.

CONNECTED TRANSACTIONS

The Directors are not aware of any related party transactions disclosed in note 37 to the financial statements constitute connected transactions of the Group, nor are there any connected transactions that require to be disclosed in this report under the Listing Rules.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the Year 2012 and up to not only date of this report, the Ausnutria Hyproca Group supplies paediatric milk formula products not only to the Group but also to other distributors in the PRC. Further, the Ausnutria Hyproca Group also distributes dairy products worldwide including the PRC under its separate brand. As such. Mr. van der Meer, being an associate of Ausnutria Hyproca, is deemed to have a competing interest with the business of the Ausnutria Group by such reason.

Save as disclosed above, during the Year 2012 and up to date of this report, none of the Directors nor their respective associates had any businesses or interests which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

COMPLIANCE ADVISORS' INTEREST

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

Subsequent to 31 December 2012, on 7 June 2013, the Company appointed ACCF as the Company's compliance advisor on an on-going basis for consultation on compliance with the Listing Rules for a period of two years commencing from 7 June 2013. During the term of the appointment, ACCF will be accountable to the Company's audit committee. As notified by ACCF, during the period from 7 June 2013 up to the date of this report, neither ACCF nor any of its directors, employees or associates had any interests in the Shares of any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the Shares of any member of the Group.

SUFFICIENCY OF PUBLIC FLOAT

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 37 to 49 of this report.

EVENT AFTER THE REPORTING PERIOD

Details of the significant event of the Group after the reporting period are set out in note 41 to the financial statements.

AUDITORS

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

On behalf of the Board

Yan Weibin
Chairman

Changsha City, the PRC
27 June 2014

Independent Auditors' Report

Ernst & Young
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel: +852 2846 9888
Fax: +852 2868 4432
www.ey.com

電話: +852 2846 9888
傳真: +852 2868 4432

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

We have audited the consolidated financial statements of Ausnutria Dairy Corporation Ltd (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 66 to 154, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

AUDITORS' RESPONSIBILITY (continued)

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the financial position of the Company and of the Group as at 31 December 2012. However, because of the matters described in the Basis for Disclaimer of Opinion on the Profit and Cash Flows paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the profit and cash flows of the Group.

BASIS FOR DISCLAIMER OF OPINION ON THE PROFIT AND CASH FLOWS

As further explained in our report dated 5 December 2013 on the Group's consolidated financial statements for the year ended 31 December 2011, 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 receivable, 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.

BASIS FOR DISCLAIMER OF OPINION ON THE PROFIT AND CASH FLOWS (continued)

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

As further explained in note 2.1 to the financial statements, at the request of the SRC, the chief financial officer of the Company and several senior managers of Ausnutria China (the "**Management**") performed certain procedures to quantify the financial impact of the Unresolved Issues on the financial statements. As a result of these procedures, the Management, the SRC and the Board identified adjustments for the reduction of accounts receivable amounting to RMB236 million and the increase in inventory amounting to RMB63 million that were required to be put through to the financial statements for the year ended 31 December 2012.

The Management, the SRC and the Board considered that the best available information on hand for the purpose of quantifying the financial impact of such adjustments on the year ended 31 December 2011 and prior years 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. The Company estimated the adjustments required for revenue for the year ended 31 December 2011 and prior years 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. Regarding the cost of sales adjustments, the Company separately estimated the average gross margin rates which it considered to be reasonable for the year ended 31 December 2011 and prior years. Based on these estimations, the Management considered that RMB190 million of the RMB236 million adjustment to the accounts receivable should be adjusted to the accounts receivable at 31 December 2011 as a reduction of revenue and RMB53 million of the RMB63 million adjustment to inventory should be adjusted to the inventory at 31 December 2011 as a reduction of cost of sales, and the remaining adjustment on accounts receivable of RMB46 million and the remaining inventory adjustment of RMB10 million should be adjusted in the consolidated financial statements for the year ended 31 December 2012 as reduction of revenue and cost of sales.

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 year ended 31 December 2011 and prior years as a result of the above investigation and quantification. In particular, the procedures to restate the revenue amounts for the year ended 31 December 2011 and prior years 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. Furthermore, 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 receivable 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. 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.

BASIS FOR DISCLAIMER OF OPINION ON THE PROFIT AND CASH FLOWS (continued)

In summary, we were unable to perform practicable audit procedures to satisfy ourselves on the reliability of information originated from the Order Books and estimates used in the determination of the sales transactions and related accounts. As a result, we disclaimed our opinion on the Group's consolidated financial statements for the year ended 31 December 2011 accordingly.

Furthermore, we were unable to perform practical audit procedures to ascertain whether the adjustments of RMB46 million and RMB10 million adjusted to the profit and loss account for the year ended 31 December 2012 should be adjusted in 2012 or prior years.

Any adjustments that might have been found necessary in respect of the above would have a consequential impact on the Group's opening balances of the consolidated financial statements as at 1 January 2012 and the Group's results for the year ended 31 December 2012 and the information presented in respect of the corresponding figures for the year ended 31 December 2011 in the consolidated financial statements for the year ended 31 December 2012.

DISCLAIMER OF OPINION ON THE PROFIT AND CASH FLOWS

Because of the significance of the matters described in the Basis for Disclaimer of Opinion on the Profit and Cash Flows paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the profit and cash flows of the Group. Accordingly, we do not express an opinion on the Group's profit and cash flows for the year ended 31 December 2012.

UNQUALIFIED OPINION ON THE FINANCIAL POSITION

In our opinion, the company and consolidated statements of financial position give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
27 June 2014

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	5	1,350,996	629,214
Cost of sales		(1,024,803)	(409,742)
Gross profit		326,193	219,472
Other income and gains	5	22,222	25,976
Selling and distribution expenses		(156,355)	(127,318)
Administrative expenses		(74,533)	(44,446)
Other expenses		(27,807)	(19,493)
Finance costs	7	(4,315)	(1,436)
Share of profits and losses of associates		–	5,006
Gain on remeasurement of interests upon acquisition		–	14,126
Profit before tax	6	85,405	71,887
Income tax expense	10	(17,388)	(21,453)
PROFIT FOR THE YEAR		68,017	50,434
Attributable to:			
Owners of the parent	11	66,490	44,275
Non-controlling interests		1,527	6,159
		68,017	50,434
OTHER COMPREHENSIVE INCOME/(LOSS)			
Exchange differences on translating foreign operations		5,153	(27,360)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		5,153	(27,360)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		73,170	23,074
Attributable to:			
Owners of the parent	11	69,386	28,861
Non-controlling interests		3,784	(5,787)
		73,170	23,074
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– basic and diluted (RMB)	12	6.74 cents	4.45 cents

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	264,290	251,619
Prepaid land lease payments	14	2,142	2,199
Goodwill	15	84,466	82,891
Other intangible assets	16	30,107	31,305
Investments in associates	18	–	1,730
Deferred tax assets	29	25,285	22,896
Total non-current assets		406,290	392,640
CURRENT ASSETS			
Inventories	19	190,935	261,614
Trade and bills receivables	20	141,297	177,792
Prepayments, deposits and other receivables	21	77,330	49,384
Held-to-maturity investments	22	60,000	200,000
Tax recoverable		9,797	3,819
Time deposits		420,000	110,000
Cash and cash equivalents	23	282,714	342,241
Total current assets		1,182,073	1,144,850
CURRENT LIABILITIES			
Trade payables	24	104,698	84,297
Other payables and accruals	25	229,654	259,508
Derivative financial instruments	26	1,129	1,175
Interest-bearing bank loans and other borrowings	27	95,555	91,386
Tax payable		9,524	5,204
Total current liabilities		440,560	441,570
NET CURRENT ASSETS		741,513	703,280
TOTAL ASSETS LESS CURRENT LIABILITIES		1,147,803	1,095,920

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		1,147,803	1,095,920
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	27	39,007	42,669
Defined benefit plan	28	17,417	13,207
Deferred tax liabilities	29	27,552	28,927
Other liabilities		–	490
Total non-current liabilities		83,976	85,293
Net assets		1,063,827	1,010,627
EQUITY			
Equity attributable to owners of the parent			
Issued capital	31	86,866	86,866
Reserves	32(a)	900,666	840,376
		987,532	927,242
Non-controlling interests		76,295	83,385
Total equity		1,063,827	1,010,627

Mr. Yan Weibin
Executive Director

Mr. Chan Yuk Tong
Independent Non-executive Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Attributable to owners of the parent								
	Issued capital RMB'000 (note 31)	Share premium account RMB'000	Capital reserve RMB'000 (note 32(a))	Statutory surplus reserve RMB'000 (note 32(a))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012	86,866	533,856	23,406	43,404	(15,466)	255,176	927,242	83,385	1,010,627
Profit for the year	–	–	–	–	–	66,490	66,490	1,527	68,017
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	2,896	–	2,896	2,257	5,153
Total comprehensive income for the year	–	–	–	–	2,896	66,490	69,386	3,784	73,170
Acquisition of a non-controlling interest in a subsidiary (note 17)	–	–	(9,096)	–	–	–	(9,096)	(13,898)	(22,994)
Contribution from the minority shareholder of a subsidiary	–	–	–	–	–	–	–	3,024	3,024
Transfer from retained profits	–	–	–	208	–	(208)	–	–	–
At 31 December 2012	86,866	533,856*	14,310*	43,612*	(12,570)*	321,458*	987,532	76,295	1,063,827

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

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

* These components of equity comprise the consolidated reserves of RMB900,666,000 (2011: RMB840,376,000) as at 31 December 2012 in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		85,405	71,887
Adjustments for:			
Finance costs	7	4,315	1,436
Interest income	5	(12,316)	(5,002)
Depreciation	6	29,389	9,849
Share of profits and losses of associates		–	(5,006)
Gain on remeasurement of interests upon acquisition		–	(14,126)
Interest income on held-to-maturity investments	5	(5,809)	(10,300)
Amortisation of other intangible assets	6	5,858	813
Amortisation of prepaid land lease payments	6	57	57
Elimination of unrealised profit on sales to associates		–	1,024
Realised profits on sales to associates		(1,024)	–
Write-off of other intangible assets	6	127	–
Write-off of trade receivables	6	1,912	–
Write-off of interests in associates	6	358	–
Write-down of inventories to net realisable value	6	27,086	1,307
		135,358	51,939
Decrease/(increase) in inventories		46,263	(39,733)
Decrease/(increase) in trade and bills receivables		36,078	(41,064)
(Increase)/decrease in prepayments, deposits and other receivables		(16,997)	71,916
Increase in trade payables		18,539	20,971
(Decrease)/increase in other payables and accruals		(27,825)	62,653
Cash generated from operations		191,416	126,682
Interest received		3,765	3,700
Interest paid		(4,361)	(1,313)
Mainland China corporate income tax paid		(6,915)	(157)
Overseas tax paid		(15,807)	(1,524)
Net cash flows from operating activities		168,098	127,388
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(40,294)	(15,625)
Additions to other intangible assets		(2,471)	(8,717)
Purchases of held-to-maturity investments	22	(60,000)	(200,000)
Investments in associates		–	(300)
Increase in time deposits		(420,000)	(110,000)
Maturity of time deposits		110,000	–
Acquisition of subsidiaries, net of cash paid		–	(128,773)
Interest income received from held-to-maturity investments		6,137	9,972
Proceeds from disposal of associates		1,300	400
Proceeds received from held-to-maturity investments	22	200,000	200,000
Net cash flows used in investing activities		(205,328)	(253,043)

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of shares		–	(134,527)
New bank loans and other borrowings		2,712	7,649
Repayment of bank loans		(3,664)	(3,163)
Repayment of other borrowings		(1,045)	(13,618)
Acquisition of non-controlling interests of a subsidiary		(22,994)	–
Contribution from non-controlling shareholders of a subsidiary		1,521	–
Dividend paid		–	(24,800)
Interest element of finance lease rental payments		(21)	(13)
Net cash flows used in financing activities		(23,491)	(168,472)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(60,721)	(294,127)
Cash and cash equivalents at beginning of year		342,241	638,984
Effect of foreign exchange rate changes, net		1,194	(2,616)
CASH AND CASH EQUIVALENTS AT END OF YEAR		282,714	342,241
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	23	282,714	342,241

Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	17	171,320	171,320
Total non-current assets		171,320	171,320
CURRENT ASSETS			
Prepayments, deposits and other receivables	21	555,942	574,181
Cash and cash equivalents	23	15,244	16,144
Total current assets		571,186	590,325
CURRENT LIABILITIES			
Other payables and accruals	25	31,150	30,911
Total current liabilities		31,150	30,911
NET CURRENT ASSETS		540,036	559,414
TOTAL ASSETS LESS CURRENT LIABILITIES		711,356	730,734
Net assets		711,356	730,734
EQUITY			
Issued capital	31	86,866	86,866
Reserves	32(b)	624,490	643,868
Total equity		711,356	730,734

Mr. Yan Weibin
Executive Director

Mr. Chan Yuk Tong
Independent Non-executive Director

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 address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal offices of the Group are located in Mainland China, at Floor 9, XinDaXin Building, No. 168, HuangXing Road (M), Changsha City, Hunan Province; in Hong Kong, at Room 2101, Beautiful Group Tower, 77 Connaught Road Central, Central; and in the Netherlands, at Burgemeester Falkenaweg 58-1 (8442LE), Heerenveen. The shares of the Company were listed on The Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 8 October 2009.

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

2.1 BASIS OF PREPARATION

As mentioned in the annual report dated 5 December 2013, during the audit in respect of the financial statements for the year ended 31 December 2011, certain unresolved issues (the "**Unresolved Issues**") relating to Ausnutria Dairy (China) Co., Ltd. ("**Ausnutria China**", a major indirect wholly-owned subsidiary of the Company), were reported by Ernst & Young, the auditors of the Company, to the board of the directors of the Company (the "**Board**") on 29 March 2012. On the same date, in the interest of the Company and its shareholders as a whole, the Company then applied for the suspension of trading of its shares on the Stock Exchange. Details in relation to the Unresolved Issues are set out in the announcement of the Company dated 28 June 2013.

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

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

2.1 BASIS OF PREPARATION (continued)

The key findings of the PwC Review are:

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

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

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

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

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

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

2.1 BASIS OF PREPARATION (continued)

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

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

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

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

Based on the results of the PwC Review and the information available at the date of approval of these consolidated financial statements, the SRC and the Board believe that the Questionable December Transactions, the Questionable November Transactions and other questionable sales transactions, if any, during the period from January to November in 2011 should have been excluded from this preparation of the consolidated financial statements of the Group for the year ended 31 December 2011 and all significant adjustments in relation to the Unresolved Issues have been put through to adjust the consolidated financial statements for the year ended 31 December 2011 and 2012.

2.2 BASIS OF PRESENTATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2012. 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 consideration in full.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Tax – Deferred Tax: Recovery of Underlying Assets*

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[6]
IFRS 9, IFRS 7, and IAS 39 Amendments	*Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39*[6]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 10, IFRS 11, and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities*[3]
IFRS 13	*Fair Value Measurement*[2]
IFRS 14	*Regulatory Deferral Accounts*[5]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
IAS 19 (Revised)	*Employee Benefits*[2]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[4]
IAS 27 (Revised)	*Separate Financial Statements*[2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
IAS 36 Amendments	Amendments to IAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*[3]
IAS 39 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
IFRIC 21	*Levies*[3]
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012[2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of IFRSs issued in December 2013[4]
Annual Improvements 2011-2013 Cycle	Amendments to a number of IFRSs issued in December 2013[4]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2016
6 No mandatory effective date yet determined but is available for adoption

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

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

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

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

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

In November 2013, the IASB added to IFRS 9 the requirements related to hedge accounting and made some related changes to IAS 39 and IFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to IFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to IFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other IFRS 9 requirements at the same time.

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

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

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

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

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

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

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

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

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

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

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

The *Annual Improvements to IFRSs 2010-2012 Cycle* issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are stated at cost less any impairment losses.

Associates

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

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

Business combinations and goodwill

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired assets.

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

Related parties

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

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

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

  (ii) has significant influence over the Group; or

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

or

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

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

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

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

Intangible assets (other than goodwill)

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

Non-patent technology

Acquired non-patent technology is capitalised on a basis of the costs incurred to acquire and bring to use the specific technology. Non-patent technology is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five years.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Trademarks

Trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of five years.

Software

Computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of five to eight years.

Milk collection right

Milk collection right is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of ten years.

Research and development costs

All research and development costs are charged to profit or loss as incurred.

Leases

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

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as loans and receivables and held-to-maturity investments. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

Loans and receivables

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

Held-to-maturity investments

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

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

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

Impairment of financial assets

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, or loans and other borrowings. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

Derivative financial instruments

Initial recognition and subsequent measurement

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

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

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

Inventories

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions

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

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

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

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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

Revenue recognition

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

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

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

Dividends

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

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

Employee benefits

Pension schemes

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Pension schemes (continued)

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

Defined benefit plan

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

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

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

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

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

Customer loyalty program

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on the settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Finance lease – Group as lessee

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

Classification of held-to-maturity investments

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

Estimation uncertainly

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the fair value less costs to sell of cash-generating units to which the goodwill is allocated. Estimating the fair value less costs to sell requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was RMB84,466,000 (2011: RMB82,891,000). Further details are given in note 15.

Impairment of non-financial assets (other than goodwill)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainly (continued)

Impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the trade receivables and impairment loss in the period in which such estimate has been changed. No impairment loss was recognised as at 31 December 2012 (2011: Nil). Further details are contained in note 20.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in note 29.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances. The depreciation provided for the year ended 31 December 2012 was RMB29,389,000 (2011: RMB9,849,000). Further details are contained in note 13.

Defined benefit plan

The Group operates a defined benefit plan. Pension costs for defined benefit plan are assessed using the projected unit credit method in accordance with IAS 19 Employee Benefits. Under this method, the cost of providing pensions is charged to profit or loss so as to spread the regular cost over the future service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plan. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the end of reporting period based on high quality corporate bonds with currency and term similar to the estimated term of benefit obligations. In calculating the Group's obligations in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligations and the fair value of plan assets, that portion is recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainly (continued)

Defined benefit plan (continued)

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

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

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments in 2012 as follows:

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

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, 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.

4. OPERATING SEGMENT INFORMATION (continued)

	Year ended 31 December 2012		
	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	486,677	864,319	1,350,996
Intersegment sales	–	10,554	10,554
	486,677	874,873	1,361,550
Reconciliation:			
Elimination of intersegment sales			(10,554)
Revenue from operations			1,350,996
Segment results	102,224	3,048	105,272
Reconciliation:			
Elimination of intersegment results			(89)
Interest income			12,316
Finance costs			(4,315)
Corporate and other unallocated expenses			(27,779)
Profit before tax			85,405
Segment assets	221,269	576,106	797,375
Reconciliation:			
Elimination of intersegment receivables			(586)
Corporate and other unallocated assets			791,574
Total assets			1,588,363
Segment liabilities	163,585	226,975	390,560
Reconciliation:			
Elimination of intersegment payables			(586)
Corporate and other unallocated liabilities			134,562
Total liabilities			524,536
Other segment information			
Impairment losses recognised in profit or loss	10,078	19,405	29,483
Depreciation and amortisation	8,969	26,335	35,304
Capital expenditure*	10,264	32,501	42,765

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

4. OPERATING SEGMENT INFORMATION (continued)

	Year ended 31 December 2011		
	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	417,310	211,904	629,214
Revenue from operations			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 and losses of associates	5,006	–	5,006
Impairment losses recognised in profit or loss	1,307	–	1,307
Investments in associates	1,730	–	1,730
Depreciation and amortisation	5,251	5,468	10,719
Capital expenditure*	39,104	8,346	47,450

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2012 RMB'000	2011 RMB'000
The PRC	640,421	441,051
European Union	510,842	148,658
Middle East	70,269	9,150
Others	129,464	30,355
	1,350,996	629,214

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

(b) Non-current assets

	2012 RMB'000	2011 RMB'000
The PRC	76,747	78,234
The Netherlands	304,258	291,510
	381,005	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 accounted for 10% or more of the Group's total revenue (2011: Nil).

5. REVENUE, OTHER INCOME AND GAINS

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

An analysis of the Group's revenue, other income and gains is as follows:

	Notes	2012 RMB'000	2011 RMB'000
Revenue			
Sale of goods		1,350,996	629,214
Other income and gains			
Interest income		12,316	5,002
Interest income on held-to-maturity investments		5,809	10,300
Government grants	(i)	996	1,681
Insurance compensation income	(ii)	–	8,018
Others		3,101	975
Total other income and gains		22,222	25,976

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

(ii) During the year ended 31 December 2011, there was an accident out-broken in one of the production facilities of the subsidiary of Ausnutria Hyproca B.V. ((“**Ausnutria Hyproca**”), together with its subsidiaries, (the “**Ausnutria Hyproca Group**”)) located in the Netherlands. In 2011, the Ausnutria Hyproca Group received compensation income from the insurance company to cover its losses incurred as a result of the accident.

6. PROFIT BEFORE TAX

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

	Notes	2012 RMB'000	2011 RMB'000
Cost of inventories sold		997,717	408,435
Write-down of inventories to net realisable value	19	27,086	1,307
Cost of sales		1,024,803	409,742
Depreciation	13	29,389	9,849
Amortisation of prepaid land lease payments	14	57	57
Amortisation of other intangible assets	16	5,858	813
Research and development costs		11,761	18,661
Minimum lease payments under operating leases:			
Buildings		2,440	1,544
Foreign exchange differences, net*		167	9,541
Provision for claims from customers*	25	9,028	–
Write-off of other intangible assets*		127	–
Write-off of trade receivables*		1,912	–
Write-off of interests in associates*		358	–
Transaction costs for the subscription and the acquisition of the equity interests in Ausnutria Hyproca B.V.*		–	7,257
Auditors' remuneration		6,238	4,382
Advertising and promotion expenses		68,320	78,264
Professional fees*		14,074	–
Employee benefit expenses (including directors' remuneration (note 8)):			
Wages, salaries and staff welfare		121,881	52,779
Pension scheme contributions**		14,329	4,454
		136,210	57,233

* The foreign exchange differences, provision for claims from customers, write-off of other intangible assets, write-off of trade receivables and write-off of interests in associates, transaction costs and professional fees incurred in relation to the Unresolved Issues are included in other expenses in the consolidated statement of comprehensive income.

** At 31 December 2012, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2011: Nil).

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Interest on bank loans, overdrafts and other loans	4,361	1,313
Interest on finance leases	21	13
Total interest expense on financial liabilities not at fair value through profit or loss	4,382	1,326
Unrealised (gain)/loss on interest rate swaps (note 26)	(67)	110
	4,315	1,436

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Group	
	2012 RMB'000	2011 RMB'000
Fees	1,779	631
Other emoluments:		
Salaries, allowances and benefits in kind	2,511	771
Pension scheme contributions	21	20
	2,532	791
	4,311	1,422

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

(a) Independent non-executive directors

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

	2012 RMB'000	2011 RMB'000
Qiu Weifa	81	83
Jason Wan	81	83
Chan Yuk Tong	1,293	133
	1,455	299

Save for the payment of fees to Mr. Chan Yuk Tong commencing since March 2012 for the capacity as the member of the SRC to assist on the follow-up of the Unresolved Issues, there were no other emoluments payable to the independent non-executive directors during the year (2011: Nil). The total emoluments paid to Mr. Chan Yuk Tong for acting as the member of the SRC amounted to RMB1,000,000 for the year (2011: Nil).

(b) Executive directors and the chief executive

	Notes	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2012					
Wu Yueshi	(i)	81	–	–	81
Chen Yuanrong	(ii)	81	2,247	10	2,338
Yan Weibin	(iii)	81	–	–	81
Ng Siu Hung		81	264	11	356
		324	2,511	21	2,856

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

(b) Executive directors and the chief executive (continued)

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

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2011: Nil).

Notes:

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

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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2011: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2011: four) non-director, highest paid employees for the year are as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Salaries, allowances and benefits in kind	6,126	1,854
Pension scheme contributions	352	35
Total	6,478	1,889

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

	Number of employees	
	2012	2011
Nil to HK$1,000,000	–	4
HK$1,000,001 to HK$1,500,000	–	–
HK$1,500,001 to HK$2,000,000	3	–
HK$2,000,001 to HK$2,500,000	1	–
Total	4	4

Among the four highest paid employees, three were attributable to the Ausnutria Hyproca Group which has become a subsidiary of the Group since 17 October 2011.

10. INCOME TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2011: Nil).

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

10. INCOME TAX (continued)

Ausnutria China has been 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. Subsequent to the reporting period, in March 2014, the application for the renewal of the designation of Ausnutria China as a High-tech Enterprise has been approved and Ausnutria China has been granted the preferential CIT tax rate of 15% for another three years ending 31 December 2015.

	Group	
	2012	2011
	RMB'000	RMB'000
Current – charge for the year		
– Mainland China	**19,631**	16,204
– The Netherlands	**(352)**	3,497
Current – underprovision in prior years		
– The Netherlands	**2,002**	–
Deferred (note 29)	**(3,893)**	1,752
Total tax charge for the year	**17,388**	21,453

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

Group – 2012

	Hong Kong		The Netherlands		Mainland China		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	(2,193)		(1,657)		108,937		(19,682)		85,405	
Income tax at the statutory income tax rate	(362)	16.5	(349)	21.1	27,234	25.0	–	–	26,523	31.1
Tax effects on preferential tax rates	–	–	–	–	(11,012)	(10.1)	–	–	(11,012)	(12.9)
Adjustments in respect of current tax of previous periods	–	–	2,002	(120.8)	–	–	–	–	2,002	2.3
Non-deductible items and others, net	–	–	101	(6.1)	2,422	2.2	–	–	2,523	3.0
Additional deduction of expenses	–	–	(2,153)	129.9	(857)	(0.8)	–	–	(3,010)	(3.5)
Tax losses not recognised	362	(16.5)	–	–	–	–	–	–	362	0.4
Tax charge/(credit) at the Group's effective rate	–	–	(399)	24.1	17,787	16.3	–	–	17,388	20.4

10. INCOME TAX (continued)

Group – 2011

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

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a loss of RMB19,514,000 (2011: loss of RMB2,290,000) which has been dealt with in the financial statements of the Company (note 32(b)).

12. 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 986,843,000 (2011: 995,302,438) in issue during the year.

Earnings

	2012 RMB'000	2011 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	66,490	44,275

Shares

	2012	2011
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	986,843,000	995,302,438

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Group Office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012							
At 31 December 2011 and 1 January 2012:							
Cost	144,274	92,352	5,585	11,247	11,146	5,590	270,194
Accumulated depreciation	(4,551)	(8,982)	(2,417)	(1,401)	(1,224)	–	(18,575)
Net carrying amount	139,723	83,370	3,168	9,846	9,922	5,590	251,619
At 1 January 2012, net of accumulated depreciation and impairment	139,723	83,370	3,168	9,846	9,922	5,590	251,619
Additions	2,594	21,868	62	4,873	–	10,897	40,294
Transfers to other intangible assets (note 16)	–	–	–	(1,884)	–	(49)	(1,933)
Depreciation provided during the year	(8,135)	(16,472)	(1,059)	(2,383)	(1,340)	–	(29,389)
Transfers	6,909	–	–	–	40	(6,949)	–
Exchange realignment	1,845	1,550	–	114	–	190	3,699
At 31 December 2012, net of accumulated depreciation and impairment	142,936	90,316	2,171	10,566	8,622	9,679	264,290
At 31 December 2012:							
Cost	155,633	116,141	5,647	11,471	11,186	9,679	309,757
Accumulated depreciation and impairment	(12,697)	(25,825)	(3,476)	(905)	(2,564)	–	(45,467)
Net carrying amount	142,936	90,316	2,171	10,566	8,622	9,679	264,290

The net carrying amount of the Group's fixed assets held under finance leases at 31 December 2012 included machinery that was attributed to the Ausnutria Hyproca Group amounted to EUR240,000 (equivalent to approximately RMB1,996,000) (2011: EUR428,000 (equivalent to approximately RMB3,494,000)).

13. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2012, certain of the Group's land and buildings, and plant and equipment that were attributed to the Ausnutria Hyproca Group and located in the Netherlands with net carrying amounts of EUR8,204,000 (equivalent to approximately RMB68,238,000) (2011: EUR8,316,000 (equivalent to approximately RMB67,880,000)) and EUR10,777,000 (equivalent to approximately RMB89,639,000) (2011: EUR9,448,000 (equivalent to approximately RMB77,121,000)), respectively, were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 27(b)).

The Group's land included in property, plant and equipment with a net carrying amount of EUR2,157,000 (equivalent to approximately RMB17,944,000) (2011: EUR2,157,000, equivalent to approximately RMB17,610,000) is situated in the Netherlands and is held as freehold land.

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

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2012 RMB'000	2011 RMB'000
Carrying amount at 1 January	2,256	2,313
Recognised during the year	(57)	(57)
Carrying amount at 31 December	2,199	2,256
Current portion included in prepayments, deposits and other receivables	(57)	(57)
Non-current portion	2,142	2,199

The leasehold land is situated in Mainland China and is held under a long term lease.

15. GOODWILL

	Group	
	2012 RMB'000	2011 RMB'000
At 1 January:		
Cost	82,891	–
Accumulated impairment	–	–
Net carrying amount	82,891	–
Cost at 1 January, net of accumulated impairment	82,891	–
Acquisition of subsidiaries	–	92,909
Exchange realignment	1,575	(10,018)
Cost at 31 December, net of accumulated impairment	84,466	82,891
At 31 December:		
Cost	84,466	82,891
Accumulated impairment	–	–
Net carrying amount	84,466	82,891

15. GOODWILL (continued)

Impairment testing of goodwill

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

Product cash-generating unit

The recoverable amount of the product cash-generating unit has been determined based on a fair value less costs to sell calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 12%. The growth rate used to extrapolate the cash flows of the product cash-generating unit beyond the five-year period is 3%.

Assumptions were used in the fair value less costs to sell calculation of the product cash-generating unit for 31 December 2012. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

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

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

16. OTHER INTANGIBLE ASSETS

Group

	Non-patent technology RMB'000	Trademarks RMB'000	Software RMB'000	Milk collection right RMB'000	Others RMB'000	Total RMB'000
31 December 2012						
Cost at 1 January 2012, net of accumulated amortisation	316	542	11,203	19,197	47	31,305
Additions	241	449	1,317	–	464	2,471
Impairment during the year	–	(127)	–	–	–	(127)
Transfers from property, plant and machinery (note 13)	–	–	1,884	–	49	1,933
Amortisation provided during the year	(106)	(170)	(2,954)	(2,609)	(19)	(5,858)
Exchange realignment	6	3	55	307	12	383
At 31 December 2012	457	697	11,505	16,895	553	30,107
At 31 December 2012						
Cost	969	835	17,564	20,065	572	40,005
Accumulated amortisation	(512)	(138)	(6,059)	(3,170)	(19)	(9,898)
Net carrying amount	457	697	11,505	16,895	553	30,107

16. OTHER INTANGIBLE ASSETS (continued)

Group

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

17. INVESTMENTS IN SUBSIDIARIES

	2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	171,320	171,320

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB555,309,000 (2011: RMB573,880,000) and RMB30,823,000 (2011: RMB30,645,000), respectively, are unsecured, interest-free and have no fixed terms of repayment.

17. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary shares/ registered capital	Percentage of equity interest attributable to the Group Direct	Indirect	Principal activities
Spring Choice Limited	British Virgin Islands	US$200	100	–	Investment holding
Ausnutria Dairy Co., Ltd.	Hong Kong	HK$1	–	100	Investment holding
Ausnutria Australia Dairy Pty Ltd.	Australia	AU$500,000	–	100	Investment holding
Ausnutria China*	The PRC/ Mainland China	RMB68,633,832	–	100	Production, marketing and distribution of paediatric nutrition products in Mainland China
Ausnutria Dairy (HK) Company Limited	Hong Kong	HK$100	–	100	Marketing and distribution of paediatric nutrition products in Hong Kong
Ausnutria Dairy (Dutch) Coöperatief U.A (“**Ausnutria (Dutch)**”)	The Netherlands	EUR13,800,000	–	100	Investment holding
Ausnutria Hyproca	The Netherlands	EUR4,086,000	–	51	Investment holding
Hyproca Nutrition Co., Ltd.**	The PRC/ Mainland China	RMB10,000,000	–	43.4#	Marketing and distribution of goat milk based nutrition products in Mainland China
Hyproca Dairy***	The Netherlands	EUR18,200	–	51#	Manufacture of nutrition products
Lypack***	The Netherlands	EUR18,151	–	51#	Processing and packaging of nutrition products
Hyproca Nutrition***	The Netherlands	EUR725,358	–	51#	Marketing and distribution of goat milk based nutrition products

17. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary shares/ registered capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Hyproca Lyempf***	The Netherlands	EUR21,500	–	51#^ (2011: 46.7)	Manufacture of nutrition products
Neolac (Shanghai) Nutrition Co. Ltd. **	The PRC/ Mainland China	RMB10,000,000	–	51#	Trading of nutrition products in Mainland China
Hyproca Nutrition East Limited	Hong Kong	HK$4,000,000	–	26#	Trading of nutrition products in Russia

* Wholly-foreign-owned enterprise

** Sino-foreign equity joint venture

*** The four companies are the principal operating subsidiaries of Ausnutria Hyproca which were acquired by the Group on 17 October 2011.

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

^ On 19 October 2012, the Ausnutria Hyproca Group acquired the remaining 8.4% equity interests in Hyproca Lyempf for a consideration of EUR2,800,000 (equivalent to approximately RMB22,994,000) and Hyproca Lyempf has become a wholly-owned subsidiary of the Ausnutria Hyproca Group thereafter.

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

The English names of Ausnutria China, Hyproca Nutrition Co. Ltd. and Neolac (Shanghai) Nutrition Co. Ltd. are direct transliterations of their registered Chinese names.

Except for the consolidated financial statements of Ausnutria Hyproca B.V. for the year ended 31 December 2012, which were audited by Ernst & Young, Netherlands, none of the statutory audited financial statements of the above subsidiaries were audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

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

18. INVESTMENTS IN ASSOCIATES

	Group	
	2012 RMB'000	2011 RMB'000
Share of net assets	–	1,730

Subsequent to the end of the reporting period, except for one associate which is still in the course of deregistration, all other associates have been disposed of/deregistered. The carrying value of the associates of RMB1,095,000 has been reclassified as other receivables under the current assets as at the end of the reporting period.

19. INVENTORIES

	Group	
	2012 RMB'000	2011 RMB'000
Raw materials	74,899	142,297
Finished goods	114,261	116,347
Others	1,775	2,970
Total	190,935	261,614

At 31 December 2012, certain of the Group's inventories that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR16,567,000 (equivalent to approximately RMB137,798,000) (2011: EUR11,814,000 (equivalent to approximately RMB96,428,000)) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 27(b)).

As at 31 December 2012, a batch of finished goods with cost of RMB27,086,000 (2011: RMB1,307,000) was considered as obsolete. A full provision was made as at 31 December 2012 and recognised as an expense for inventories carried at net realisable value in cost of sales. Fair value less costs to sell of this batch of finished goods was nil (2011: nil).

20. TRADE AND BILLS RECEIVABLES

	Group	
	2012 RMB'000	2011 RMB'000
Trade receivables	122,615	119,818
Bills receivable	18,682	57,974
Total	141,297	177,792

20. TRADE AND BILLS RECEIVABLES (continued)

The Group normally allows a credit period from 1 month to 12 months (2011: from 1 month to 12 months) to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group	
	2012 RMB'000	2011 RMB'000
Within 3 months	107,476	113,622
3 to 6 months	6,927	3,591
6 months to 1 year	4,648	2,333
Over 1 year	3,564	272
Total	122,615	119,818

There was no provision for impairment as at 31 December 2012 (2011: 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 individually nor collectively considered to be impaired is as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	109,735	92,491
Within 3 months past due	11,023	26,053
3 months to 1 year past due	1,857	1,274
Total	122,615	119,818

20. TRADE AND BILLS RECEIVABLES (continued)

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

Receivables that were past due but not impaired relate 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.

At 31 December 2012, certain of the Group's trade receivables that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR7,388,000 (equivalent to approximately RMB61,450,000) (2011: EUR11,941,000 (equivalent to approximately RMB97,469,000)) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 27(b)).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
	Notes	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Prepayments to suppliers		33,105	11,301	–	–
Due from related parties		–	505	–	–
Due from subsidiaries	17	–	–	555,309	573,880
Due from a director	37(b)	251	643	–	–
Insurance claims		1,633	10,827	–	–
Interest income receivable		9,853	1,629		
Other tax recoverable		10,073	2,206	–	–
Others		22,415	22,273	633	301
		77,330	49,384	555,942	574,181

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

22. HELD-TO-MATURITY INVESTMENTS

On 29 May 2012, the Group entered into an entrusted fund management agreement with Hunan Trust and Investment Co., Ltd. ("**Hunan Trust**"), an independent third party, pursuant to which, Ausnutria China entrusted Hunan Trust a fund of RMB60,000,000 to purchase an entrusted loan (the "**Entrusted Loan**") from Shanghai Pudong Development Bank (Changsha), an independent third party. The Entrusted Loan was unsecured and bore interest at a rate of return of approximately 8% per annum and would mature on 29 May 2013. The Entrusted Loan is classified as a held-to-maturity investment and is measured at amortised cost using the effective interest rate method as at 31 December 2012.

The Entrusted Loan together with its interest matured in May 2013.

Last year's held-to-maturity investment represented a one-year term entrusted loan granted to Yunnan International, an independent third party, of RMB200,000,000 pursuant to an entrusted fund management agreement entered into with China Merchants Bank (Changsha), an independent third party, on 29 April 2011 (the "**2011 Entrusted Loan**"). The 2011 Entrusted Loan was unsecured, bore a rate of return of approximately 5.7% per annum and matured in April 2012. The 2011 Entrusted Loan was classified as a held-to-maturity investment and was measured at amortised cost using the effective interest rate method as at 31 December 2011.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Cash and bank balances	282,714	342,241	15,244	16,144

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB248,204,000 (2011: RMB273,908,000). The RMB is not freely convertible in the international market. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to convert RMB into other currencies through banks to conduct foreign exchange business.

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

24. TRADE PAYABLES

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

	Group	
	2012 RMB'000	2011 RMB'000
Within 12 months	104,689	84,250
Over 12 months	9	47
	104,698	84,297

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

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Advances from customers	87,679	141,368	–	–
Deferred income	46,897	39,433	–	–
Deposits	13,266	10,054	–	–
Due to subsidiaries	–	–	30,823	30,645
Accrued salaries and welfare	21,742	19,529	3	132
Other tax payables	4,003	2,828	–	–
Provision for claims from customers*	9,028	–	–	–
Other payables	28,586	28,729	324	134
Accruals	18,453	17,567	–	–
	229,654	259,508	31,150	30,911

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

* During the year, one of the suppliers (the "**Supplier**") of the Ausnutria Hyproca Group has notified the Ausnutria Hyproca Group that one of the raw materials that was previously delivered by the Supplier might have been contaminated. The entire balance represented provision made by the Ausnutria Hyproca Group for compensation that might have to be paid to the customers.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2012 RMB'000	2011 RMB'000
Interest rate swaps entered into by the Ausnutria Hyproca Group	1,129	1,175

The Ausnutria Hyproca Group has entered into various interest rate swap contracts to manage its interest rate exposures. These interest rate swaps are measured at fair value through profit or loss. A net fair value gain on these interest rate swaps amounting to RMB46,000 (2011: loss of RMB110,000) was recognised in profit or loss for the year ended 31 December 2012.

27. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

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

	2012			2011		
	Annual effective interest rate (%)	Maturity	RMB'000	Annual effective interest rate (%)	Maturity	RMB'000
Current						
Finance lease payables (note 30)	3.0	2013	761	3.0	2012	1,079
Bank overdrafts – secured	1 month Euribor + 2.0	2013	91,051	1 month Euribor + 2.0	2012	86,634
Current portion of long-term bank loans – secured	4.45*	2013	2,079	4.45*	2012	2,040
	1 month Euribor + 2.0	2013	1,664	1 month Euribor + 2.0	2012	1,633
			95,555			91,386
Non-current						
Finance lease payables (note 30)	3.0	2015	746	3.0	2014	1,448
Bank loans – secured	4.45*	2017	8,318	4.45*	2017	10,203
Bank loans – secured	1 month Euribor + 2.0	2017	29,943	1 month Euribor + 2.0	2017	31,018
			39,007			42,669
			134,562			134,055

* Includes the effects of related interest rate swaps as further detailed in note 26 to the financial statements.

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

	Group	
	2012	2011
	RMB'000	RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	94,794	90,307
In the second year	3,743	3,674
In the third to fifth years, inclusive	11,229	11,019
Beyond five years	23,289	26,528
	133,055	131,528
Other borrowings repayable:		
Within one year or on demand	761	1,079
In the second year	746	1,079
In the third to fifth years, inclusive	–	369
	1,507	2,527
	134,562	134,055

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

Notes:

(a) The Group's bank overdraft facilities that were attributed to the Ausnutria Hyproca Group amounted to EUR12,975,000 (equivalent to approximately RMB107,921,000) (2011: EUR13,500,000 (equivalent to approximately RMB110,194,000)), of which EUR10,947,000 (equivalent to approximately RMB91,051,000) (2011: EUR10,614,000 (equivalent to approximately RMB86,634,000)) had been utilised as at 31 December 2012.

(b) Certain of the Ausnutria Hyproca Group's bank loans and overdraft facilities are secured by:

(i) mortgages over the Ausnutria Hyproca Group's land and buildings situated in the Netherlands, which had an aggregate carrying value at the end of the reporting period of EUR8,204,000 (equivalent to approximately RMB68,238,000) (2011: EUR8,316,000 (equivalent to approximately RMB67,880,000));

(ii) pledges of the Ausnutria Hyproca Group's plant and equipment situated in the Netherlands, which had an aggregate carrying value at the end of the reporting period of EUR10,777,000 (equivalent to approximately RMB89,639,000) (2011: EUR9,448,000 (equivalent to approximately RMB77,121,000));

(iii) pledges of the Ausnutria Hyproca Group's inventories, which had an aggregate carrying value at the end of the reporting period of EUR16,567,000 (equivalent to approximately RMB137,798,000) (2011: EUR11,814,000 (equivalent to approximately RMB96,428,000)); and

(iv) pledges of the Ausnutria Hyproca Group's trade receivables, which had an aggregate carrying value at the end of the reporting period of EUR7,388,000 (equivalent to approximately RMB61,450,000 (2011: EUR11,941,000 (equivalent to approximately RMB97,469,000)).

(c) All borrowings are denominated in EUR.

28. DEFINED BENEFIT PLAN

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

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out at 31 December 2012 by the appraiser, using the projected unit credit actuarial valuation method.

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

	2012	2011
Discount rate (%)	2.7	3.7
Expected rate of return on plan assets (%)	2.7	3.7
Expected rate of salary increases (%)	2.5	2.5
Expected rate of pension increases (%)	1.5	1.5

28. DEFINED BENEFIT PLAN (continued)

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

The actuarial valuation showed that the market value of plan assets was RMB17,334,000 (2011: RMB15,917,000) and that the actuarial value of these assets represented 50% (2011: 55%) of the benefits that had accrued to qualifying employees. The deficiency of RMB17,417,000 (2011: RMB13,207,000) is expected to be cleared over the remaining service period of 17 (2011: 18) years.

The total expenses recognised in profit or loss in respect of the plan are as follows:

	2012 RMB'000	2011 RMB'000
Current service cost	1,221	170
Interest cost	1,107	187
Expected return on plan assets	(611)	(115)
Actuarial losses	3,176	756
Additional charges	171	47
Net benefit expenses	5,064	1,045
Expected employer contribution	1,189	195
Recognised in administrative expenses	3,875	850
	5,064	1,045

28. DEFINED BENEFIT PLAN (continued)

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

	2012 RMB'000	2011 RMB'000
At 1 January	29,124	–
Acquisition of subsidiaries	–	29,982
Current service cost	1,221	170
Interest cost	1,107	187
Contributions by plan participants	122	25
Actuarial losses on obligation	3,281	1,215
Benefits paid	(765)	(127)
Exchange differences on a foreign plan	661	(2,328)
At 31 December	34,751	29,124

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

	2012 RMB'000	2011 RMB'000
At 1 January	15,917	–
Acquisition of subsidiaries	–	16,571
Expected return	611	115
Actuarial gains	105	459
Contributions by employer	1,189	195
Contributions by plan participants	122	25
Additional charges	(171)	(47)
Benefits paid	(765)	(127)
Exchange differences on a foreign plan	326	(1,274)
At 31 December	17,334	15,917
Actual return on plan assets	716	573

28. DEFINED BENEFIT PLAN (continued)

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

	2012 RMB'000	2011 RMB'000
Fair value of plan assets	(17,334)	(15,917)
Present value of defined benefit obligations	34,751	29,124
Net liabilities arising from defined benefit obligations	17,417	13,207
Actual return on reimbursement right recognised as an asset	17,417	13,207

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

	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Present value of defined benefit obligations	34,751	29,124	25,741	25,286	21,878
Fair value of plan assets	17,334	15,917	14,592	14,353	11,320

29. DEFERRED TAX

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

Deferred tax liabilities

Group

	2012				
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Milk collection rights RMB'000	Withholding taxes RMB'000	Total RMB'000
31 December 2012					
At 1 January 2012	6,520	14,855	1,369	6,183	28,927
Deferred tax charged/(credited) to profit or loss during the year (note 10)	225	(1,723)	(272)	–	(1,770)
Exchange differences	129	246	20	–	395
Gross deferred tax liabilities at 31 December 2012	6,874	13,378	1,117	6,183	27,552

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

29. DEFERRED TAX (continued)

Deferred tax assets

Group

	2012						
	Defined benefit plan RMB'000	Losses available for offsetting against future taxable income RMB'000	Provision against inventories RMB'000	Deductible temporary difference RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
31 December 2012							
At 1 January 2012	3,306	9,994	297	2,917	6,090	292	22,896
Deferred tax credited/(charged) to profit or loss during the year (note 10)	794	(1,188)	(271)	464	1,474	850	2,123
Exchange differences	80	160	–	–	–	26	266
Gross deferred tax assets at 31 December 2012	4,180	8,966	26	3,381	7,564	1,168	25,285

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

29. DEFERRED TAX (continued)

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

The Group has tax losses arising in Hong Kong, and the Netherlands of RMB2,506,000 (2011: RMB313,000), and RMB7,931,000 (2011: RMB7,931,000), respectively, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by the subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008. The applicable rate for the Group is 10% (2011: 10%).

As at 31 December 2012, the Group has not recognised deferred tax liabilities of RMB29,685,000 (2011: RMB20,479,000) in respect of temporary differences relating to the unremitted earnings of subsidiaries, amounting to RMB296,849,000 (2011: RMB204,786,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

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

30. FINANCE LEASE PAYABLES

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

At 31 December 2012, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments 2012 RMB'000	Minimum lease payments 2011 RMB'000	Present value of minimum lease payments 2012 RMB'000	Present value of minimum lease payments 2011 RMB'000
Amount payable:				
Within one year	774	1,100	761	1,079
In the second year	768	1,104	746	1,079
In the third to fifth years, inclusive	–	379	–	369
Total minimum finance lease payments	1,542	2,583	1,507	2,527
Future finance charges	(35)	(56)		
Total net finance lease payables	1,507	2,527		
Portion classified as current liabilities (note 27)	(761)	(1,079)		
Non-current portion (note 27)	746	1,448		

31. SHARE CAPITAL

Shares

	2012 HK$'000	2011 HK$'000
Authorised:		
1,500,000,000 (2011: 1,500,000,000) ordinary shares of HK$0.10 each	150,000	150,000

	2012		2011	
	HK$'000	RMB'000 equivalent	HK$'000	RMB'000 equivalent
Issued and fully paid:				
986,843,000 (2011: 986,843,000) ordinary shares of HK$0.10 each	98,684	86,866	98,684	86,866

There was no movement in the share capital during the year. The movements in share capital during the year ended 31 December 2011 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 year ended 31 December 2011. The total cost was HK$159,320,000 (equivalent to RMB134,527,000) and the shares repurchased have been cancelled.

(b) The Company issued 11,000,000 new shares at HK$1.36 per share, amounting to HK$14,960,000 (equivalent to RMB12,140,000) as part of the consideration for the acquisition of Ausnutria Hyproca during the year ended 31 December 2011.

31. SHARE CAPITAL (continued)

A summary of the transactions during the year ended 31 December 2011 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 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, 1 January 2012 and 31 December 2012	986,843,000	86,866	531,980	618,846

* The amount did not include the non-distributed proposed dividend of RMB1,876,000 which arose from repurchase of shares before payment of 2010 final dividend.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 69 to 70 of the financial statements.

(i) Capital reserve

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

(ii) Statutory surplus reserve

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

32. RESERVES (continued)

(b) Company

	Share premium RMB'000	Capital reserve* RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2011	649,167	171,320	(3,599)	(26,179)	26,676	817,385
Total comprehensive loss for the year	–	–	(2,290)	(29,240)	–	(31,530)
Final 2010 dividend declared	1,876**	–	–	–	(26,676)	(24,800)
Repurchase of shares – Note 31(a)	(128,434)	–	–	–	–	(128,434)
Issues of shares – Note 31(b)	11,247	–	–	–	–	11,247
At 31 December 2011	533,856	171,320	(5,889)	(55,419)	–	643,868

	Share premium RMB'000	Capital reserve* RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 1 January 2012	533,856	171,320	(5,889)	(55,419)	643,868
Total comprehensive loss for the year	–	–	(19,514)	136	(19,378)
At 31 December 2012	533,856	171,320	(25,403)	(55,283)	624,490

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

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

33. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities (2011: Nil).

34. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, which are secured by the assets of the Ausnutria Hyproca Group, are included in notes 13, 19, 20 and 27, respectively, to the financial statements.

35. OPERATING LEASE ARRANGEMENTS

As lessee

At the end of the reporting period, the Group had the following total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Within one year	2,069	327
In the second to fifth years, inclusive	2,701	62
	4,770	389

As at the end of the reporting period, the Company did not have future minimum lease payments under non-cancellable operating leases (2011: Nil).

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following capital commitments at the end of the reporting period:

	Group	
	2012 RMB'000	2011 RMB'000
Contracted, but not provided for:		
Plant and machinery	10,583	3,676
Leasehold improvements	1,260	4,563
	11,843	8,239

At the end of the reporting period, the Company did not have any significant commitments (2011: Nil)

37. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year ended 31 December 2011:

	Note	2012 RMB'000	2011 RMB'000
Associates:			
Sales of merchandises	(i)	–	32,936
Sales of promotion products	(i)	–	281
Fellow subsidiary:			
Purchase of merchandise from Aubrand Food Co., Ltd. ("**Aubrand**")		–	43

Note:

(i) The sales to associates were determined with reference to sales prices to major independent third party customers.

37. RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

	Note	2012 RMB'000	2011 RMB'000
Trade receivables:			
Associates		–	2,205
Prepayments, deposits and other receivables:			
Aubrand		–	505
Amount due from a director	(i)	251	643
Other payables and accruals:			
Associates		–	12,609

Note:

(i) The balance represented the loan granted to the then executive director and chief executive officer of the Company and Ausnutria China, Mr. Chen, which was unsecured, bore interest at 5% per annum and was fully repaid subsequent to the reporting period. The maximum outstanding balance due from Mr. Chen during the year was RMB643,000 (2011: RMB712,000).

Except for the loan granted to Mr. Chen, the balances with related parties were unsecured, non-interest-bearing and were fully settled during the year.

(c) Compensation of key management personnel of the Group

	2012 RMB'000	2011 RMB'000
Salaries, allowances and benefits in kind	17,066	4,175
Retirement benefit contributions	891	90
Total compensation paid to key management personnel	17,957	4,265

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2012

Financial assets

	Group		
	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade and bills receivables	–	141,297	141,297
Financial assets included in prepayments, deposits and other receivables	–	1,884	1,884
Held-to-maturity investments	60,000	–	60,000
Time deposits	–	420,000	420,000
Cash and cash equivalents	–	282,714	282,714
	60,000	845,895	905,895

2012

Financial liabilities

	Group		
	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	104,698	104,698
Financial liabilities included in other payables and accruals	–	69,333	69,333
Derivative financial instruments	1,129	–	1,129
Interest-bearing bank loans and other borrowings	–	134,562	134,562
	1,129	308,593	309,722

38. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2011

Financial assets

	Group		
	Held-to-maturity investments RMB'000	Loans and receivables RMB'000	Total RMB'000
Trade and bills receivables	–	177,792	177,792
Financial assets included in prepayments, deposits and other receivables	–	11,975	11,975
Held-to-maturity investments	200,000	–	200,000
Time deposits	–	110,000	110,000
Cash and cash equivalents	–	342,241	342,241
	200,000	642,008	842,008

2011

Financial liabilities

	Group		
	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	84,297	84,297
Financial liabilities included in other payables and accruals	–	56,350	56,350
Derivative financial instruments	1,175	–	1,175
Interest-bearing bank loans and other borrowings	–	134,055	134,055
	1,175	274,702	275,877

38. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2012

Financial assets

	Company
	Loans and receivables RMB'000
Due from subsidiaries	555,309
Financial assets included in prepayments, deposits and other receivables	4
Cash and cash equivalents	15,244
	570,557

2012

Financial liabilities

	Company
	Financial liabilities at amortised cost RMB'000
Due to subsidiaries	30,823
Financial liabilities included in other payables and accruals	280
	31,103

38. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2011

Financial assets

	Company
	Loans and receivables
	RMB'000
Due from subsidiaries	573,880
Financial assets included in prepayments, deposits and other receivables	265
Cash and cash equivalents	16,144
	590,289

2011

Financial liabilities

	Company
	Financial liabilities at amortised cost
	RMB'000
Due to subsidiaries	30,645
Financial liabilities included in other payables and accruals	134
	30,779

39. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Financial assets				
Cash and cash equivalents	282,714	342,241	282,714	342,241
Time deposits	420,000	110,000	420,000	110,000
Trade and bills receivables	141,297	177,792	141,297	177,792
Financial assets included in prepayments, deposits and other receivables	1,884	11,975	1,884	11,975
Held-to-maturity investments	60,000	200,000	60,000	200,000
	905,895	842,008	905,895	842,008
Financial liabilities				
Trade payables	104,698	84,297	104,698	84,297
Financial liabilities included in other payables and accruals	69,333	56,350	69,333	56,350
Derivative financial instruments	1,129	1,175	1,129	1,175
Interest-bearing bank loans and other borrowings	134,562	134,055	124,656	134,055
	309,722	275,877	299,816	275,877

39. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows: (continued)

Company

	Carrying amounts		Fair values	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Financial assets				
Cash and cash equivalents	15,244	16,144	15,244	16,144
Financial assets included in prepayments, deposits and other receivables	4	265	4	265
Due from subsidiaries	555,309	573,880	555,309	573,880
	570,557	590,289	570,557	590,289
Financial liabilities				
Financial liabilities included in other payables and accruals	280	134	280	134
Due to subsidiaries	30,823	30,645	30,823	30,645
	31,103	30,779	31,103	30,779

As at 31 December 2012 and 31 December 2011, the carrying amounts of the Group's financial instruments approximate to their fair values.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

39. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Liabilities measured at fair value:

As at 31 December 2012

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments	–	1,129	–	1,129

As at 31 December 2011

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instruments	–	1,175	–	1,175

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank loans, finance leases and other borrowings, amounts due from/to related parties, and cash and bank balances and time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.5 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank loans and other borrowings with a floating interest rate. In order to minimise the impact of interest rate exposure, the Group has entered into interest rate swap contracts with creditworthy banks to manage its interest rate swaps.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

Group

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000
2012		
EUR	100	(2,980)
EUR	(100)	2,980
2011		
EUR	100	(2,897)
EUR	(100)	2,897

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures mainly arise from sales or purchases by the Group's operating units in the Netherlands and Hong Kong in currencies other than the Group's functional currency (i.e., RMB). In addition, the Group's certain bank balances are denominated in HK$ and EUR, and certain revenue and expenses of subsidiaries of the Group are denominated in HK$ and EUR.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rate of HK$ and EUR, with all other variables held constant, of the Group's profit before tax and the Group's equity.

	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	%	RMB'000	RMB'000
2012			
If RMB weakens against HK$	5%	776	93
If RMB strengthens against HK$	(5%)	(776)	(93)
If RMB weakens against the EUR	5%	–	(145)
If RMB strengthens against the EUR	(5%)	–	145
2011			
If RMB weakens against HK$	5%	807	318
If RMB strengthens against HK$	(5%)	(807)	(318)
If RMB weakens against the EUR	5%	–	2,718
If RMB strengthens against the EUR	(5%)	–	(2,718)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, time deposits, trade and bills receivables, other receivables and held-to-maturity investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, interest-bearing bank loans, finance leases and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2012					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	–	101,147	3,542	9	–	104,698
Finance lease payables	–	–	774	768	–	1,542
Financial liabilities included in other payables and accruals	22,294	47,039	–	–	–	69,333
Derivative financial instruments	–	1,129	–	–	–	1,129
Interest-bearing bank loans and other borrowings	–	–	100,599	16,461	47,276	164,336
Total	22,294	149,315	104,915	17,238	47,276	341,038

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Group

	2011					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	–	4,581	79,716	–	–	84,297
Finance lease payables	–	270	809	1,448	–	2,527
Financial liabilities included in other payables and accruals	10,554	45,796	–	–	–	56,350
Derivative financial instruments	–	1,175	–	–	–	1,175
Interest-bearing bank loans and other borrowings	–	–	95,480	20,884	50,357	166,721
Total	10,554	51,822	176,005	22,332	50,357	311,070

The maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Company

	2012		
	On demand RMB'000	Less than 3 months RMB'000	Total RMB'000
Due to subsidiaries	30,823	–	30,823
Financial liabilities included in other payables and accruals	–	280	280
Total	30,823	280	31,103

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

	2011		
	On demand RMB'000	Less than 3 months RMB'000	Total RMB'000
Due to subsidiaries	30,645	–	30,645
Financial liabilities included in other payables and accruals	–	134	134
Total	30,645	134	30,779

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 31 December 2011.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity plus net debt. Net debt is calculated as the sum of interest-bearing bank loans and other borrowings, trade payables and other payables and accruals, less time deposits and cash and cash equivalents. Total equity represents equity attributable to the owners of the parent. The gearing ratio as at the end of the reporting period is as follows:

	2012 RMB'000	2011 RMB'000
Interest-bearing bank loans and other borrowings	134,562	134,055
Trade payables	104,698	84,297
Other payables and accruals	229,654	259,508
Less: Time deposits	(420,000)	(110,000)
Cash and cash equivalents	(282,714)	(342,241)
Net debt	(233,800)	25,619
Equity attributable to owners of the parent	987,532	927,242
Equity and net debt	753,732	952,861
Gearing ratio	N/A	2.7%

41. EVENT AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this report, the Group has the following event took place subsequent to the end of the reporting period:

On 7 June 2013, the Company, Ausnutria (Dutch) and DDI, entered into a call option agreement (the "**Call Option Agreement**") pursuant to which DDI has granted a call option to Ausnutria (Dutch) or its designated nominee at a premium of HK$1.00 to acquire the remaining 49% equity interests in Ausnutria Hyproca from DDI by the issuance of 202,125,000 new shares of the Company, representing approximately 17% of the enlarged issued share capital of the Company. The option has a life of 12 months from the date of the Call Option Agreement which is extendable for a further 12 months' period at the unilateral right of DDI. Upon exercise of the call option, Ausnutria Hyproca will become an indirect wholly-owned subsidiary of the Company. Further details of the Call Option Agreement are set out in the announcement of the Company dated 7 June 2013.

On 5 June 2014, DDI has exercised its right to extend the call option for another 12 months to 6 June 2015 in accordance with the terms of the Call Option Agreement as mentioned in the above. Further details regarding the extension of the call option are set out in the announcement of the Company dated 9 June 2014.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 June 2014.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements (as restated when appropriate), is set out below.

	Year ended 31 December 2012 RMB'000	Year ended 31 December 2011 RMB'000	Year ended 31 December 2010 RMB'000	Year ended 31 December 2009 RMB'000	Six months ended 30 June 2009 RMB'000	Year ended 31 December 2008 RMB'000
RESULTS						
REVENUE	1,350,996	629,214	513,890	545,584	320,972	405,166
Cost of sales	(1,024,803)	(409,742)	(250,710)	(277,224)	(184,711)	(259,163)
Gross profit	326,193	219,472	263,180	268,360	136,261	146,003
Other income and gains	22,222	25,976	21,520	6,898	4,547	836
Selling and distribution expenses	(156,355)	(127,318)	(174,449)	(91,947)	(44,717)	(56,628)
Administrative expenses	(74,533)	(44,446)	(21,584)	(10,565)	(4,720)	(9,162)
Other expenses	(27,807)	(19,493)	(20,367)	(41)	(121)	(695)
Finance costs	(4,315)	(1,436)	(1,369)	(4,184)	(4,181)	(859)
Share of profits/(losses) of associates	–	5,006	(104)	–	–	–
Gain on remeasurement of interests upon acquisition	–	14,126	–	–	–	–
PROFIT BEFORE TAX	85,405	71,887	66,827	168,521	87,069	79,495
Income tax expense	(17,388)	(21,453)	(6,877)	(26,288)	(21,908)	(8,966)
PROFIT FOR THE YEAR	68,017	50,434	59,950	142,233	65,161	70,529
Attributable to:						
Owners of the parent	66,490	44,275	59,950	142,223	65,161	70,529
Non-controlling interests	1,527	6,159	–	–	–	–
	68,017	50,434	59,950	142,223	65,161	70,529

	As at 31 December 2012 RMB'000	As at 31 December 2011 RMB'000	As at 31 December 2010 RMB'000	As at 31 December 2009 RMB'000	As at 30 June 2009 RMB'000	As at 31 December 2008 RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS						
Total assets	1,588,363	1,537,490	1,203,638	1,656,108	287,946	227,041
Total liabilities	(524,536)	(526,863)	(158,070)	(615,422)	(219,726)	(121,493)
Net assets	1,063,827	1,010,627	1,045,568	1,040,686	68,220	105,548
Non-controlling interests	(76,295)	(83,385)	–	–	–	–
	987,532	927,242	1,045,568	1,040,686	68,220	105,548

Note:

The financial information for the six months ended 30 June 2009 and the year ended 31 December 2008 has been prepared upon the reorganisation as if the group structure, at the time when the shares were listed on the Stock Exchange, had been in existence throughout the year/period concerned.