澳优·海普诺凯
Ausnutria

Annual Report 2016

RISE
by lifting others

AUSNUTRIA DAIRY CORPORATION LTD

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1717)

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澳优·海普诺凯
Ausnutria

allnutria 能力多

Eurlate 牛奶客

globlait

海普诺凯1897 Hyproca 1897

佳贝艾特 kabrita

美优高 Mygood

悠蓝 Neolac

Nutrition Care

Nutriunion

Puredo 美纳多

Contents

Mission

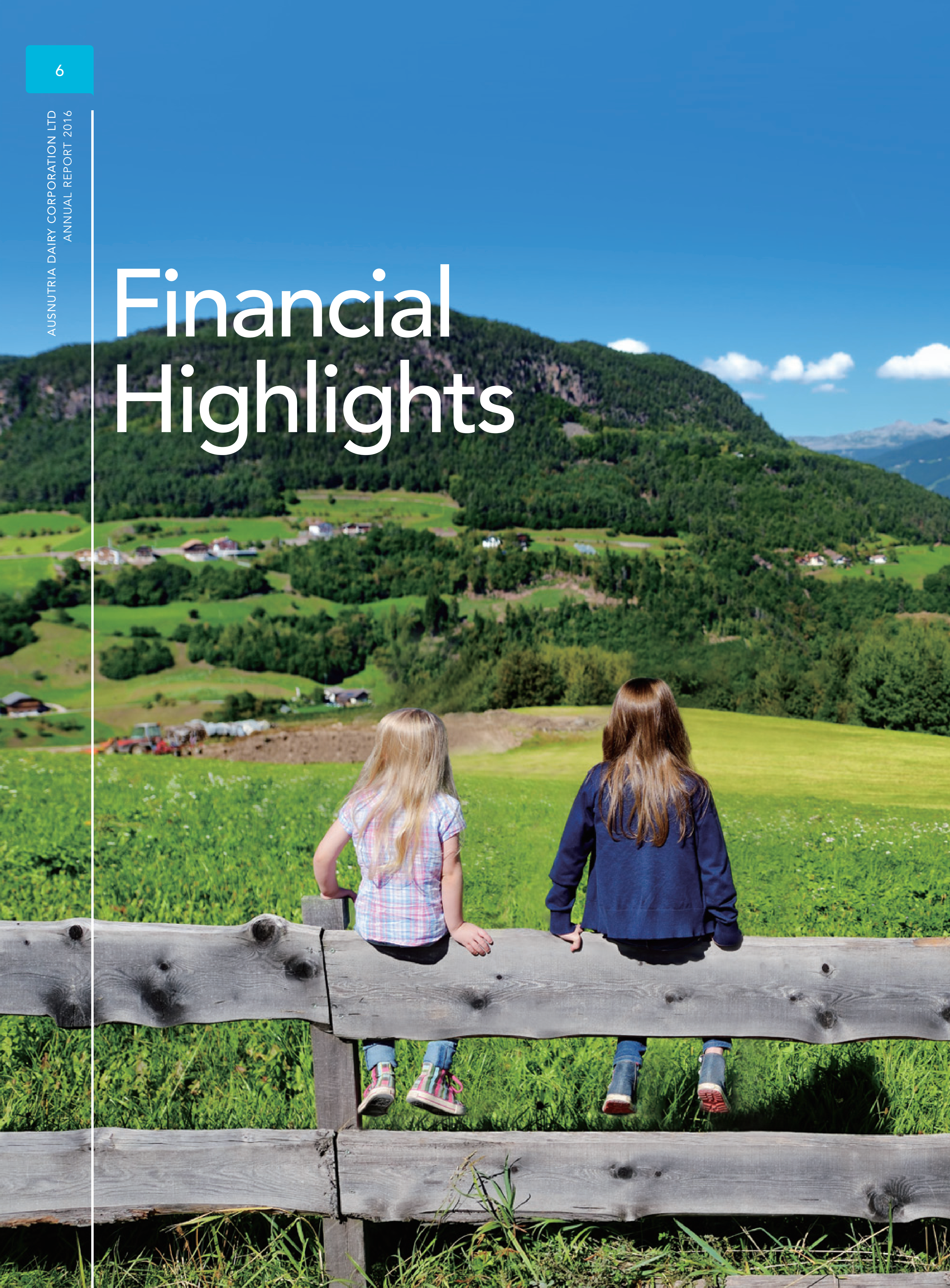
澳优·海普诺凯
Ausnutria

Nourishing Life & Caring Growth
滋養生命　呵護成長

Vision

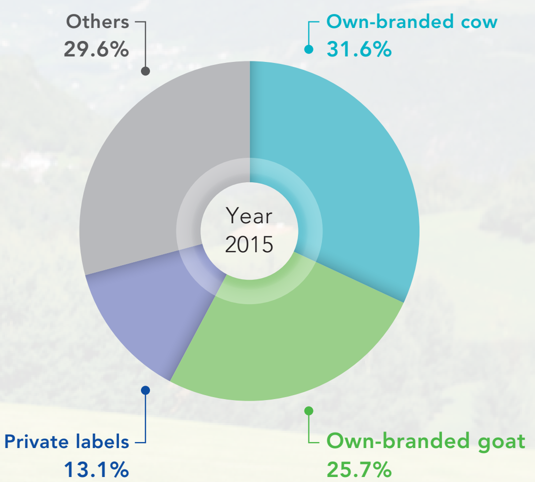
To become a leading infant
formula supplier in the world as well as
the most trustworthy nutrition product
supplier and nutritional and
health adviser in the PRC

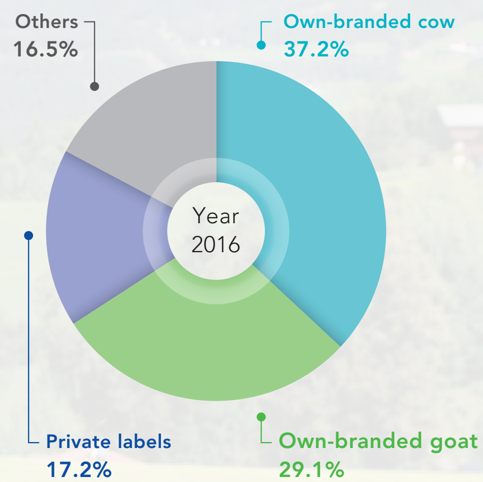
Financial Highlights



(RMB'M)	2012	2013	2014	2015	2016
Revenue	1,351.0	1,687.8	1,966.0	2,103.5	**2,740.3**
Gross profit	326.2	471.8	567.2	590.0	**1,124.9**
Gross profit (in %)	24.1	28.0	28.9	28.0	**41.1**
EBITDA	106.9	178.3	168.3	33.4	**333.3**
Profit before tax	85.4	157.8	137.3	3.8	**297.8**
Profit attributable to Shareholders	66.5	120.7	90.2	50.6	**212.7**
EPS (in RMB cent)	6.7	12.2	9.1	4.9	**17.0**
Cash inflows/(outflow) from operating activities	168.1	82.6	85.9	(45.4)	**294.4**
Net assets	1,063.8	1,194.5	1,214.9	1,327.5	**1,589.7**
Total assets	1,588.4	2,002.7	2,433.3	3,030.5	**3,923.6**
Net cash	568.2	573.6	391.2	317.1	**112.3**

Revenue by Segment



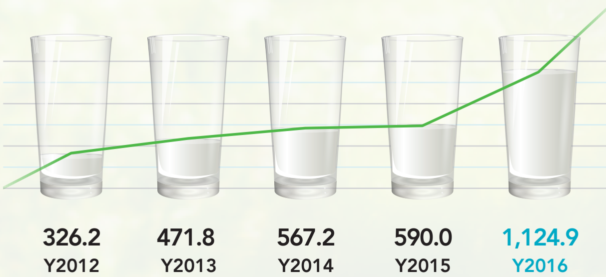


Key own-branded products increased from 57.3% to 66.3% of total revenue

	2015 RMB'M	2016 RMB'M	Changes RMB'M	%
Own-branded Cow Infant Formula	665.9	**1,018.9**	353.0	53.0%
Own-branded Goat Infant Formula	539.9	**798.9**	259.0	48.0%
	1,205.8	**1,817.8**	612.0	50.8%
Private Labels	274.6	**472.1**	197.5	71.9%
Others	623.1	**450.4**	(172.7)	(27.7%)
Total	2,103.5	**2,740.3**	636.8	30.3%

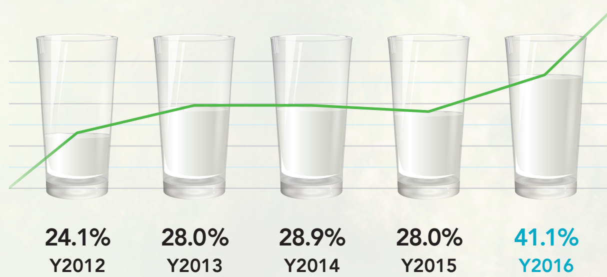
Gross profit (RMB'M)

2016 VS 2015 + Increased *90.7%*



Gross profit (in %)

2016 VS 2015 + Increased *13.1pps*



EBITDA (RMB'M)

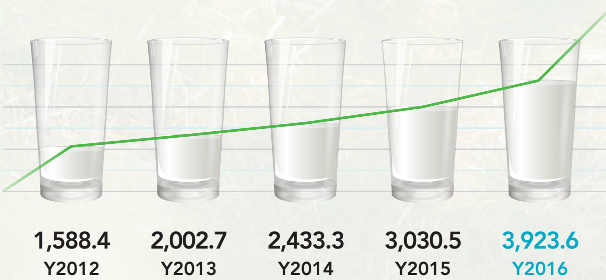
2016 VS 2015 + Increased *897.9%*

Profit attributable to Shareholders (RMB'M)

2016 VS 2015 + Increased *320.4%*

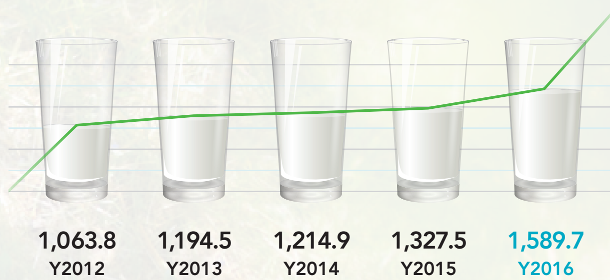
Total assets (RMB'M)

2016 VS 2015 + Increased *29.5%*

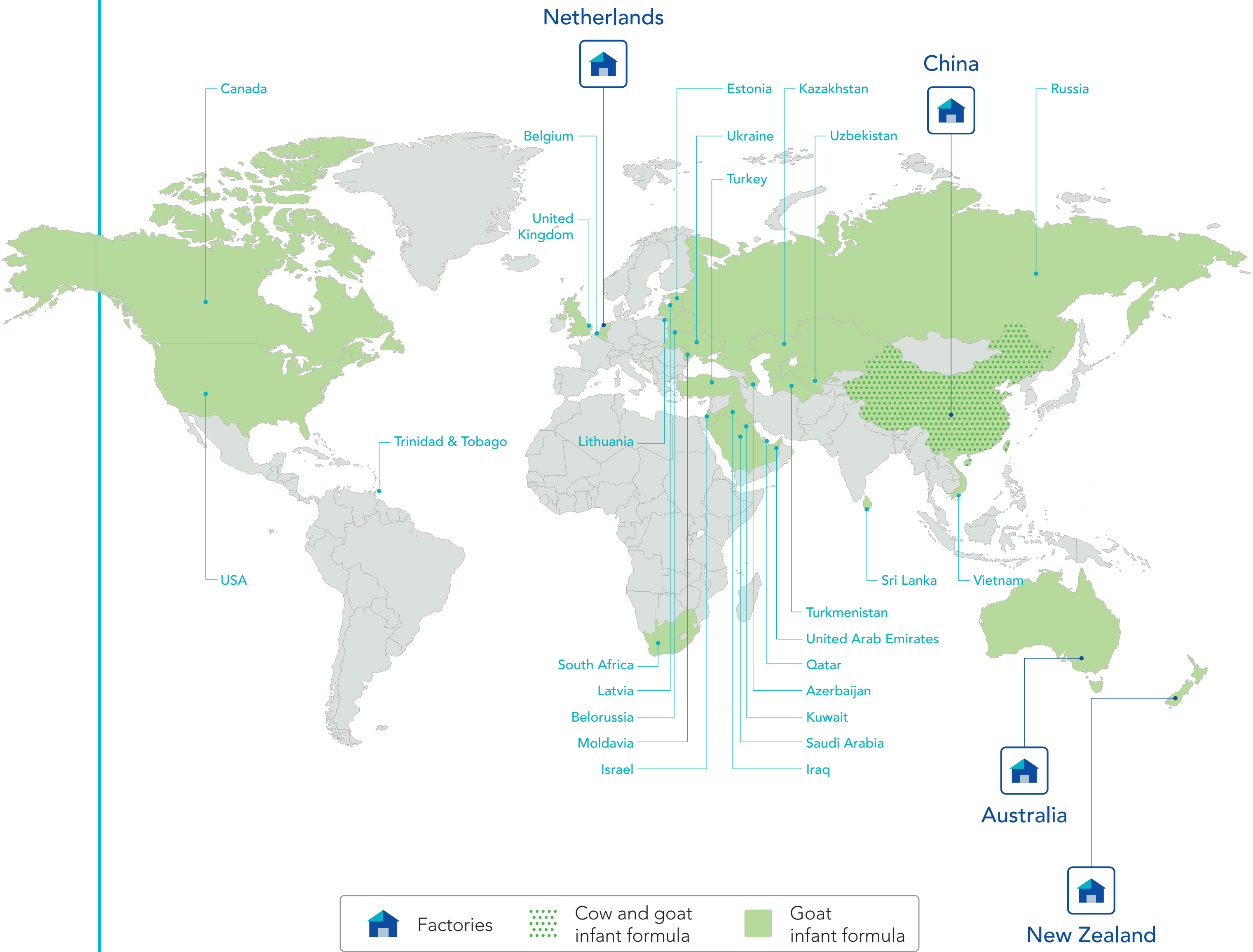


Net assets (RMB'M)

2016 VS 2015 + Increased *19.8%*



Our Establishment and Sales Network



Our Future

Australia: The Nutrition Business

- acquired during the Year 2016
- TGA certified, well established factory

The Netherlands: The Green Factory

- to be completed in the 2nd half of 2017
- budget investment over EUR100.0 million
- highest quality standard, state of the art

New Zealand: The NZ Joint Venture

- establishment of a new plant to be completed in the 2nd half of 2017
- flagship in The Association of Southeast Asian Nations
- strategic alliance with Westland, second largest dairy co-operative in New Zealand

The PRC: The Mornring Project

- in the process of finalising the detail business plan
- land with an area of 1,500 square meters which is adjacent to the Group's existing factory in Changsha, the PRC

Corporate Information

BOARD OF DIRECTORS

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

Non-executive Directors
Mr. Tsai Chang-Hai (appointed on 19/1/2016)
Mr. Zeng Xiaojun (appointed on 19/1/2016)

Independent Non-executive Directors
Ms. Ho Mei-Yueh (appointed on 19/1/2016)
Mr. Jason Wan
Mr. Lau Chun Fai Douglas

COMPANY SECRETARY
Mr. Wong Wei Hua Derek

AUTHORISED REPRESENTATIVES
Ms. Ng Siu Hung
Mr. Wong Wei Hua Derek

AUDIT COMMITTEE
Mr. Lau Chun Fai Douglas *(Chairman)*
Ms. Ho Mei-Yueh (appointed on 19/1/2016)
Mr. Jason Wan

REMUNERATION COMMITTEE
Mr. Lau Chun Fai Douglas *(Chairman)*
Mr. Yan Weibin
Ms. Ho Mei-Yueh (appointed on 19/1/2016)
Mr. Jason Wan

NOMINATION COMMITTEE
Mr. Yan Weibin *(Chairman)*
Ms. Ho Mei-Yueh (appointed on 19/1/2016)
Mr. Jason Wan
Mr. Lau Chun Fai Douglas

AUDITORS
Ernst & Young
Certified Public Accountants

COMPLIANCE ADVISER
Asian Capital (Corporate Finance) Limited

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

PRINCIPAL PLACES OF BUSINESS

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

In Hong Kong
Unit 16, 36/F., China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan
Hong Kong

In the Netherlands
Dokter van Deenweg 150
8025 BM Zwolle
The Netherlands

In Australia
25-27 Keysborough Avenue
Keysborough VIC 3173
Australia

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
Shanghai Pudong Development Bank Co., Limited, Shanghai
ABN AMRO Bank N.V.
Rabobank
HSBC, Hong Kong

STOCK CODE
1717

COMPANY'S WEBSITE
www.ausnutria.com.hk

Chairman's Statement

DEAR SHAREHOLDERS,

On behalf of Ausnutria Dairy Corporation Ltd (the "**Company**") and its subsidiaries (collectively, the "**Group**"), I am pleased to present the annual report of the Company for the year ended 31 December 2016 (the "**Year 2016**").

For the Year 2016, the Group recorded a revenue of RMB2,740.3 million, representing an increase of RMB636.8 million, or 30.3%, when compared with the year ended 31 December 2015 (the "**Year 2015**"). In particular, the revenue of the Group's key products, own-branded goat milk-based and cow milk-based infant formula, in the People's Republic of China (the "**PRC**") increased by 49.3% to RMB1,682.4 million and accounted for 61.4% of the total revenue of the Group. The Group's profit attributable to ordinary equity holders of the parent increased by 320.4% to RMB212.7 million for the Year 2016.

Year 2016 is the first year of the "Golden Decade" strategic plan which was announced by the Company at the end of 2015. During the Year 2016, the Company continued to adjust its business structure and strategies, increase its effort on the building of the global supply chain on infant formula and establish the overseas nutritional business to cater for the industry change and accommodate the long-term vision of the Group. The above steps have contributed promising results in terms of operation performance, product diversification as well as strengthened the business chain of the Group. In addition, the Group has achieved satisfactory results in developing its market network and enhancing consumer services during the year.

Sustainable Growth in Multiple Brands

In the Year 2016, *Kabrita and Hyproca 1897* were listed among the top 10 most influential brands for infant formula in the PRC at the CBME AWARDS, which is considered as the Oscars in the children, baby and maternity industry in the PRC. *Allnutria*, with a strong presence in the 2nd-, 3rd- and 4th-tier markets in the PRC, was awarded as the "Consumers' Most Favoured Brand" presented by mama.cn, the leading web portal for baby and maternity information in the PRC. *Puredo* and *Mygood*, which focus in the 3rd- to 4th- and 4th- to 5th-tier markets respectively in the PRC, also showed a remarkable growth. Apart from the business of infant formula, the Group also launched a functional liquid milk under a new brand *Globlait* in December 2016 which targets the children's market in the PRC.

The Group's own-brand *Kabrita* maintains its leading position in the imported goat milk-based infant formula sector in the PRC and accounted for approximately 53.5% of the market share of the total imported goat milk-based infant formula in the PRC in the Year 2016. Sales of *Kabrita* overseas has also increased by over 70% as compared with the Year 2015 with sales network extended to cover more of the major foreign countries and regions in the world.

In addition to the development of own brands, the Group's operation in the Netherlands (the "**Ausnutria Hyproca Group**") also produces infant formula for other worldwide customers on an OEM basis (the "**Private Label**") so as to fully utilise its production capacity and enhance its overall efficiency. As the plant in the Netherlands completed its technical and facility upgrade in 2015, the production capacity of the Ausnutria Hyproca Group resumed to normal, while the sales, operation and financial performances were picking up in the Year 2016 accordingly. Additional production capacity has been allocated to the Private Label customers in the Year 2016. Sales of the Private Label business had surged by over 70% in the Year 2016 as compared with the Year 2015.

Well-Established International Presence

The Company set its corporate vision as "To become a leading infant formula supplier in the world as well as the most trustworthy nutrition product supplier and nutritional and health adviser in the PRC" in 2015. This was for the first time the Group includes nutrition product business to be one of its strategic business development arms. To achieve this vision, in August 2016, the Group entered into business and land sale agreements with the owner of *Nutrition Care* (a professional high-end nutritional product brand with production facilities based in Australia) to acquire the 75% effective interest in the business and assets as well as its properties at a total consideration of AUD31.6 million (equivalent to approximately RMB161.2 million). This acquisition kicked off the co-operation between the Company and *Nutrition Care* to expand in the rapidly growing international nutritional product market. This acquisition is part of the Company's plan to enlarge its product lines and expand its global presence and an important milestone for the Company to achieve its medium- to long-term vision to become a comprehensive high-value nutrition product enterprise.

Moreover, in September 2016, the Group co-invested, by way of capital and shareholders' loan, with the second largest dairy co-operative in New Zealand ("**Westland**") to form a joint venture for the establishment of a new plant in Rolleston, New Zealand for a total investment cost up to NZD36.5 million (equivalent to approximately RMB177.0 million). The principal activities of the new joint venture are the production and sale of infant formula and other dairy based powder products, thus enlarging the Group's strategic presence in the top-notch milk sources around the globe. The formation of the new joint venture will enhance the Company's infant formula and adult nutrition product production capacities, and allow the Company to further expand in the PRC and international markets by capitalising on the milk source in New Zealand and the technical edge of Westland, while laying the foundation for its future strategic development in the Southeast Asian markets.

Furthermore, the Group approved and commenced the construction of a new factory in Heerenveen, the Netherlands (the "**Green Factory**") in 2014 to improve the blending and packaging capacity as well as the quality standards of the Group. Following completion of the Green Factory, the blending and packaging capacity of the Group in the Netherlands will gradually increase from approximately 30,000 tons to 90,000 tons by 2019. The Green Factory is now in the final stage of installing the product lines and equipment and is expected to commence operation in 2017. Furthermore, the Group has also invested in upstream organic related resources in order to secure a reliable and stable supply of organic infant formula required ingredients to support the development of the Group's two organic brands (*Organic Allnutria* and *Organic Neolac*) and achieve brand differentiation.

Improved Quality System, Upheld Product Quality and Carried on Technological Innovation

In 2014, all of the Group's factories in the PRC and overseas were among those first batch of factories that had been granted with the National Infant Formula Enterprise Production Permit and Overseas Accreditations (嬰幼兒配方奶粉企業生產許可證及海外註冊認證) of the PRC. During the Year 2016, in addition to the research and development projects carried out by the Group both in the PRC and the Netherlands, the Group in collaboration with the Peking University, the PRC, continues to carry out intensive research work in the Maternal and Child Nutrition Research Centre (母嬰營養研究中心) that was set up in 2012 together with the set up of the breast milk bank to support future continuous scientific research and studies. Although regulations in the PRC are now more stringent than ever, the Group successfully achieved a 100% passing rate in the monthly random inspection conducted by the China Food and Drug Administration (國家食品藥品監督管理總局), thereby reaffirming the quality of the Group's products that are sold in the PRC. Since 2014 and after the Group's research center in the PRC being accredited as a "Provincial Grade Enterprise Technology Centre" by the Hunan Economic and Information Technology Commission (湖南省經濟和信息化委員會), in November 2016, the Company succeeded in applying as an entrepreneurial technology centre (省級企業技術中心) from the Development and Reform Commission of Human Province (湖南省發展和改革委員會), and a post-doctoral research workshop (博士後工作流動站) was approved to be set up, thus allowing the Company to attract a group of national experts to join the Company as research, development and technological consultants. Besides, the Company was also among one of the first batch of enterprises to be reaffirmed as "Hi-tech Enterprises (高新技術企業)", and one of the research and development results was awarded the Second-Class Hunan Patent Award (湖南省專利二等獎) by Hunan Province, the PRC. Furthermore, the Group also rigorously fostered the reform and upgrade of the infant formula industry by organizing the Fourth-Generation Infant Formula Technology and Development Summit (第四代嬰幼兒奶粉科技發展高峰論壇) and the 2016 International Goat Milk Development Summit (二零一六國際羊乳發展高峰論壇).

As part of the long-term strategy of *Kabrita*, being the Group's key international brand, the Group approved clinical trials in 2014 to apply for the approval by the US Food and Drug Administration (the "**FDA**") to sell *Kabrita* in the United States. Both the clinical trials and the application for the sale of *Kabrita* in the United States are proceeding as scheduled, and the FDA approval is expected to be granted in 2018.

Committed to Social Responsibilities

In 2016, the Group offered over 2,600 job opportunities across the world, formed partnerships with Changsha Social Welfare Institute（長沙市社會福利院）and other organisations and actively participated in charity affairs. In 2013, under the setup of a charity project named "*Kabrita* U Love Plan（優愛行動）" with the join hands of employees, consumers, distributors and industry practitioners across the nation, the Group delivered free infant and child supplies such as *Kabrita* to the underprivileged communities. In January 2017, in the 6th China Charity Festival（中國公益節）held in Beijing, *Kabrita* was awarded the "Charity Practice Award 2016（二零一六年度公益踐行獎）" for its excellent reputation and commitment to social responsibilities, while the "*Kabrita* U Love Plan" was awarded the "Charity Project Award 2016（二零一六年度公益項目獎）". Since the establishment of the "*Kabrita* U Love Plan" three years ago, the plan has donated supplies amounting to approximately RMB20.0 million to underprivileged families, social welfare institutes, orphanages and rehabilitation hospitals in 27 provinces and municipalities including Inner Mongolia, Xinjiang, Shandong, Shanxi, Hebei, Sichuan, Guizhou, Yunnan, Hunan, Hubei, Guangxi, Guangdong and Fujian.

The "Mother Love 800g（母愛800g）" of Allnutria, which was a caring children in poverty program launched since 2015, was accredited as the outstanding unit（優秀理事單位）by Hunan Charity Federation（湖南省慈善總會）in 2016. There has been more than 100 events organized or participated since the launch of the "Mother Love 800g", with donation of material supplies like milk powder which worth over RMB10.0 million.

The Group is optimistic that the Green Factory will be fully completed and commence its production in 2017 and position the plant in New Zealand as the flagship for the production in Australia and New Zealand. The Company will continue to improve its product quality by further enhancing its research and development capabilities, production and testing capacities, and to have its brands timely registered under the Administrative Measures for the Registration of Formulas for Infant formula Powder（《嬰幼兒配方乳粉產品配方註冊管理辦法》）promulgated by the China Food and Drug Administration in 2016.

APPRECIATION

I would like to take this opportunity to thank the Group's customers, suppliers, distributors, business associates and shareholders of the Company for their continuous support and trust. In addition, my heartfelt appreciation goes to the board of directors, senior management and all the staff of the Company for their contributions and hard work throughout the year.

Yan Weibin
Chairman

Changsha City, the PRC
14 March 2017

Business Review and Outlook

OVERVIEW OF 2016

Business overview

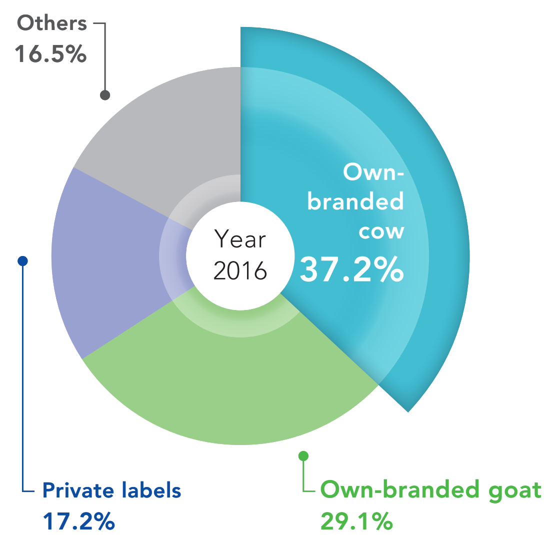
During the Year 2016, the dairy industry, in particular, in the PRC which is the Group's principal market, continued to be challenging. While it is anticipated that the PRC market will continue to grow steadily due to the relaxation of the one-child policy and the rising living standards in the PRC,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

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

Infant Formula Business

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

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



Sales increased by 53.0% to RMB1,018.9M

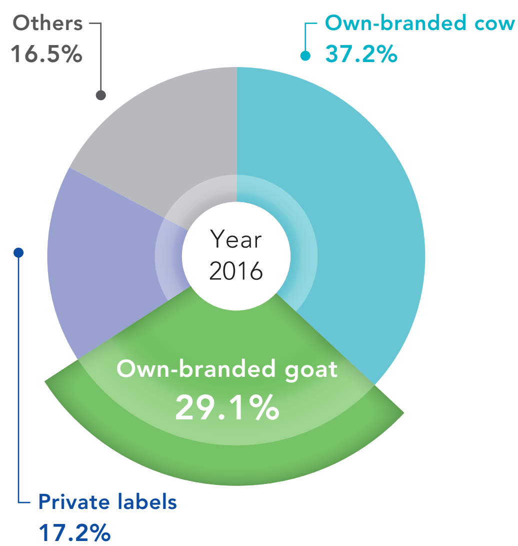
Business Review and Outlook

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

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

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

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



Sales increased by 48.0% to RMB798.9M

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

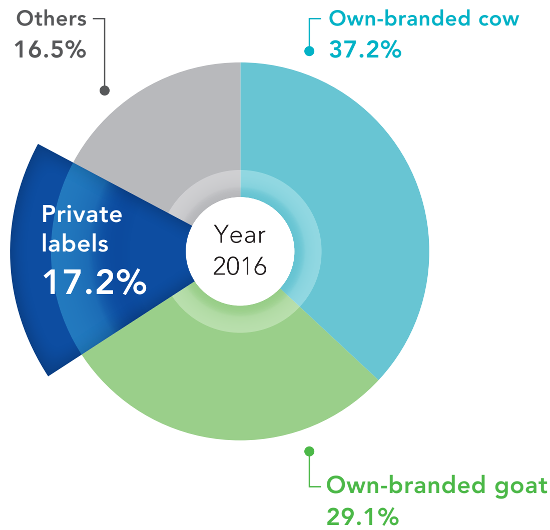
All *Kabrita* products are manufactured by the Ausnutria Hyproca Group in the Netherlands since their launch in 2011. The continuous success in *Kabrita* is mainly attributable to (i) the effective marketing strategy launched by the Group; (ii) the unique formula; and (iii) the unique position and business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

As part of the long-term strategy of the Group to launch *Kabrita* worldwide, in 2014, the Group approved clinical trials to apply for approval by the FDA for the sale of Stage 1 *Kabrita* in the United States. The clinical trials and the application of the import approval to the United States of Stage 1 *Kabrita* has been carried out as scheduled. In particular, the Group received the Generally Recognised as Safe "GRAS" status (GRN No. 644) for the non-fat dry goat milk and goat whey protein concentrate for use in the goat milk-based infant formula, i.e. confirming that these ingredients are recognised as safe and permitted to be used as the source of protein in infant formula in the United States, during the Year 2016.

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

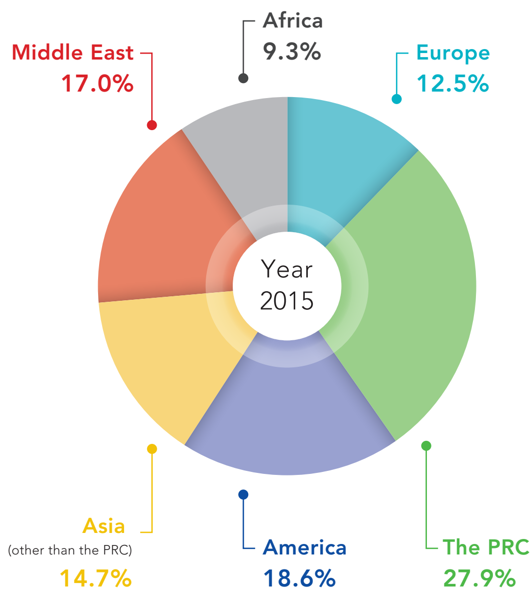
(C) *Private Label business*

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

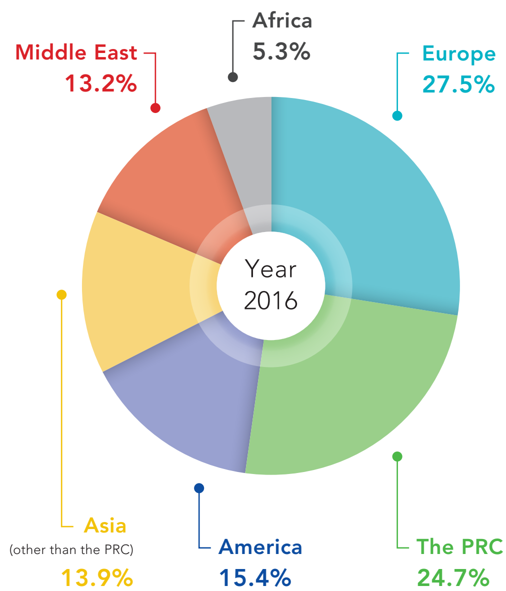


Sales increased by 71.9% to RMB472.1M

An analysis of the Private Label business by geographical region is as follow:



Total RMB274.6M



Total RMB472.1M

Nutrition Business

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

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

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

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

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

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

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

Acquisition in the Nutrition Business and the NCP Properties in Australia

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

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

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

After the Nutrition Business Agreements completed on 5 October 2016, the Group indirectly owns 75% of the equity interests in NCP while the NCP Vendors are beneficially interested in 25.0% of the Nutrition Business and has through a consultant company been acting as the consultant for the Nutrition Business. Besides, most of the employees that were previously involved in the Nutrition Business have already transferred to the Group upon completion of the Nutrition Business Agreements. The Company believes such arrangement will facilitate a smooth transition as well as to expedite the development of the Group into the Nutrition Business sector by leveraging on the expertise of the consultant and the management team and the strong distribution and customer network of the Group.

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

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

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

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

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

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

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

Industry overview

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

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

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

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

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

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

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

OUTLOOK

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

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

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

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

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

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

Extension into the Nutrition Business sector

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

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

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

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

Management Discussion And Analysis

FINANCIAL REVIEW

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

Revenue

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

* New businesses commenced during the Year 2016.

Notes:

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

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

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

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

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

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

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

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

Gross profit and gross profit margin

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

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

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

Other income and gains

An analysis of other income and gains is as follows:

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

Notes:

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

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

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

Selling and distribution expenses

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

Administrative expenses

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

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

Other expenses

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

Finance costs

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

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

Share of profit of an associate

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

Income tax expenses

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

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

	Mainland China		The Netherlands		Others		The Group	
	2016	2015	2016	2015	2016	2015	2016	2015
Profit/(loss) before tax (RMB'M)	329.2	170.4	31.8	(116.3)	(63.2)	(50.3)	297.8	3.8
Income tax expense/(credit) (RMB'M)	66.2	37.8	3.6	(27.5)	(6.0)	(9.6)	63.8	0.7
Effective income tax rate (%)	20.1	22.2	11.3	23.6	9.5	19.1	21.4	17.9

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

Profit attributable to equity holders of the Company

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

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

Analysis on Consolidated Statement of Financial Position

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

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

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

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

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

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

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

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

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

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

Working Capital Cycle

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

An analysis of key working capital cycle is as follows:

	2016 *Number of days*	2015 *Number of days*	Change *Number of days*
Debtors' turnover days	29	32	(3)
Inventory turnover days	181	140	41
Creditors' turnover days	34	42	(8)

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

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

Analysis on Consolidated Statement of Cash Flows

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

Net cash flows from/(used in) operating activities

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

Net cash flows used in investing activities

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

Net cash flows from financing activities

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

The net cash flows from financing activities for the Year 2015 also included the net cash inflows from the receipt of the net proceeds from the Open Offer (as defined below) of approximately RMB206.4 million and the cash outflow for the settlement of the cash consideration for the acquisition of the residual 49.0% equity interest in Ausnutria Hyproca of approximately RMB82.3 million.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

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

TREASURY POLICY

The Group has adopted a prudent treasury policy in respect of investments in financial products. Any surplus funds of the Group will only be invested in time deposits or low risk financial instruments from reputable commercial banks that can be redeemed within a short notice period, including primary bank-sponsored wealth management products, money market funds and interbank deposits.

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGED OF ASSETS

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

	As at 31 December	
	2016 RMB'M	2015 RMB'M
Interest-bearing bank loans and borrowings	(1,212.6)	(946.2)
Less: Pledged deposits [1]	778.4	769.7
Time deposits [1]	98.3	186.0
Cash and cash equivalents [2]	448.2	307.6
	112.3	317.1
Total assets	3,923.6	3,030.5
Shareholders' equity	1,468.1	1,312.7
Gearing ratio [3]	N/A	N/A
Solvency ratio [4]	37.4	43.3

Notes:

(1) All denominated in RMB.

(2) 69.7% (2015: 60.5%) of which are denominated in RMB.

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

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

The Group is dedicated to improving banking facilities to reserve funding to support its business development, in particular in the overseas. As at 31 December 2016, the Group had outstanding borrowings of RMB1,212.6 million (2015: RMB946.2 million), of which RMB761.5 million (2015: RMB757.0 million) was due within one year and the remaining RMB451.1 million (2015: RMB189.2 million) due over one year. As at 31 December 2016, except for two bank loans of a total of RMB48.7 million which are denominated in RMB (2015: bank loans of a total of HK$244.4 million which were denominated in HK$) and bore interest at 5.0% per annum, all the bank borrowings of the Group were denominated in EUR and bear interest at floating rates with reference to London Interbank Offered Rate or The Euro Interbank Offered Rate.

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

FOREIGN EXCHANGE RISK

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

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

During the Year 2016, the Group entered into a EUR against RMB capped forward contracts of EUR5.0 million (Year 2015: Nil) to hedge certain of its EUR denominated indebtedness. The management will monitor closely on its foreign currency exposure to ensure appropriate measures are taken promptly against any significant potential adverse impact.

INTEREST RATE RISK

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

CREDIT RISK

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

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

COMMITMENTS

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

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

CONTINGENT LIABILITIES

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

USE OF PROCEEDS FROM OPEN OFFER

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

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

HUMAN RESOURCES

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

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

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

Corporate Governance Report

The Directors are pleased to present the corporate governance report for the Year 2016.

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 of the Company (the "**Shareholders**") and improve its performance.

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

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

MODEL CODE FOR 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 2016 and up to the date of this report.

The Company has established written guidelines on terms no less exacting than the Model Code (the "**Employees Written Guidelines**") for securities transactions by employees who are likely to be in possession of unpublished inside information of the Company.

No incident of non-compliance with the Employees Written Guidelines by the relevant employees was noted by the Company for the Year 2016 and up to the date of this report.

BOARD OF DIRECTORS

Board Composition

The Board comprised nine members, including four executive Directors, two non-executive Directors and three independent non-executive Directors as at the date of this report. Save for Mr. Lin Jung-Chin and Mr. Tsai Chang-Hai, both being directors of BioEngine Capital Inc., 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 65 to 72 of this report.

The members of the Board during the Year 2016 and up to the date of this report were as follows:

Executive Directors:

Mr. Yan Weibin	*(Chairman)*
Mr. Lin Jung-Chin	
Mr. Bartle van der Meer	*(Chief Executive Officer)*
Ms. Ng Siu Hung	

Non-executive Directors:

Mr. Tsai Chang-Hai	(Appointed on 19 January 2016)
Mr. Zeng Xiaojun	(Appointed on 19 January 2016)

Independent Non-executive Directors:

Ms. Ho Mei-Yueh	(Appointed on 19 January 2016)
Mr. Jason Wan	
Mr. Lau Chun Fai Douglas	
Mr. Qiu Weifa	(Resigned on 19 January 2016)

The Board adopted a board diversity policy effective from 1 September 2013 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 will 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 14 March 2017 by the Nomination Committee.

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 of the Company (the "**AGM**")in accordance with the provisions of the articles of association of the Company (the "**Articles of Association**"). 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).

Non-Executive Directors and Independent Non-Executive Directors

The non-executive Directors (the "**NEDs**") and independent non-executive Directors (the "**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.

All the NEDs and the INEDs have entered into letters of appointment with the Company for a term of 2 years 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 2016.

Chairman of the Board and Chief Executive Officer

The Company has, since the early stage of its incorporation, segregated the duties of the chairman of the Board (the "**Chairman**") and the chief executive officer (the "**CEO**"). The Chairman and the CEO are separately held by different Board members in order to preserve independence and have a balanced judgment of views. The Chairman 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 CEO 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.

Appointment, Re-election and Removal of Directors

Article 84 of the Articles of Association provides that all the Directors, including the Chairman, 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.

Role and Function

The Board is responsible for the leadership and management of the Group's businesses as well as its strategic planning and performances. The management of the Company was delegated the authority and responsibility by the Board for the day-to-day management of the Group. In addition, the Board has also delegated various responsibilities to the Board committees, namely audit committee (the "**Audit Committee**"), nomination committee (the "**Nomination Committee**"), remuneration committee (the "**Remuneration Committee**") and executive committee (the "**Executive Committee**"). Details of these committees are set out in this report.

All the Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and the Shareholders at all times.

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 and make recommendations to the Company;

(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 (the CG 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 2016, 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.

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 opinion are set out in the "Independent Auditors' Report" of this report.

Board Committees and Other Committee(s)

Audit Committee

The Audit Committee comprises all the three INEDs. Primary duties of the Audit Committee are to assist the Board in reviewing the financial statements and material advice in respect of financial reporting, internal control and risk management systems and the effectiveness of internal audit function of the Company, making recommendations to the Board on the appointment and removal of external auditors, and reviewing arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company. The written terms of reference of the Audit Committee are in line with the code provisions of the CG Code.

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2016, the annual results for the Year 2016, risk management and internal control systems of the Group as well as considered and discussed with the external auditors regarding their re-appointment.

Full minutes of the 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.

Nomination Committee

The Nomination Committee comprises an executive Director and all the three INEDs. 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 Nomination 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. The written terms of reference of the Nomination Committee are in line with the code provisions of the CG Code.

During the Year 2016, the Nomination Committee reviewed the board diversity policy, the structure, size and composition of the Board, the independence of the INEDs and considered the qualifications of the retiring Directors standing for re-election at the AGM.

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

Remuneration Committee

The Remuneration Committee comprises of an executive Director and all the three INEDs. 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. The written terms of reference of the Remuneration Committee are in line with the code provisions of the CG Code.

The Remuneration Committee has reviewed the remuneration policy and structure of the Company, the share option plan, the remuneration packages as well as the annual bonuses of the Directors and the senior management.

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

Executive Committee

The Executive Committee was established in 2015 and comprises four members: Mr. Yan Weibin (the Chairman), Mr. Lin Jung-Chin (executive Director), Mr. Bartle van der Meer (CEO) and Mr. Wong Wei Hua, Derek (Chief Financial Officer and Company Secretary). It is the organ for making significant business decisions of the Company. Upon delegation by the Board, the Executive Committee makes decisions regarding major issues as proposed by the Board through interactive communications from time to time concerning monitoring over the Group's business objectives, business development plans and major business projects.

Continuous Professional Development

The Listing Rules require directors to understand their responsibilities as directors of listed companies. To ensure that newly appointed directors have adequate understanding of the responsibilities as directors of listed companies as well as the operations and business of the Group, the Board has set up an induction system for new directors. The Company Secretary together with the assistance of the Company's legal adviser induct to each of the new Directors following their appointments becoming effective, which includes a description of directors' duties, the Listing Rules, introduction of corporate governance structure and the businesses of the Company.

To ensure that all Directors have regular updates of their knowledge, the Company has established a guideline on directors' training, including the carrying out of an annual update on the Listing Rules to be conducted by the Company's legal/financial adviser. 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 as well as the applicable legal and regulatory requirements in the industry.

Based on the training records as provided to the Company by the Directors, the Directors have participated in the following training during the year.

	Types of training
Executive Directors:	
Mr. Yan Weibin	B, C
Mr. Lin Jung-Chin	B, C
Mr. Bartle van der Meer	B, C
Ms. Ng Siu Hung	B, C
Non-executive Directors:	
Mr. Tsai Chang-Hai	A, B, C
Mr. Zeng Xiaojun	A, B, C
Independent Non-executive Directors:	
Ms. Ho Mei-Yueh	A, B, C
Mr. Jason Wan	B,C
Mr. Lau Chun Fai Douglas	A, B, C

A: attended trainings conducted by the Company's legal adviser for newly appointed directors

B: attended seminar conducted by the Company's legal adviser

C: read newspapers, journals and updates relating to the Group's business and regulatory requirements, and materials relating to the Listing Rules and relevant laws

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.

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, draft and final versions of minutes are sent to the Directors for their comments and records respectively and are open for inspection by the Directors.

Attendances of the Directors at various Board meetings, Board committee meetings and general meetings during the Year 2016

The schedule for the regular meetings of the Board and the Board committees was prepared and approved by the Board at the end of the previous year. Formal notices were sent to the Directors at least 14 days before the meeting shall be held officially. In general, the Board agenda and meeting materials were despatched to all Board or relevant committee members for review at least 3 working days before the meetings. The agenda had been prepared after sufficient consultation with the Board/Board committee members and was then approved by the respective chairmen. The Company Secretary is responsible for submitting the papers of the Board meetings and relevant information to the Directors, who have to capture the related information timely and further obtain more if necessary or seek independent professional advice accordingly. Individual attendance records of the Directors in the Year 2016 are as follow:

	Board meetings	Audit Committee meetings	Nomination Committee meetings	Remuneration Committee meeting	Year 2015 AGM 2016.05.26
Executive Directors:					
Mr. Yan Weibin(1)	7/7	N/A	2/2	1/1	1/1
Mr. Lin Jung-Chin	7/7	N/A	N/A	N/A	1/1
Mr. Bartle van der Meer	6/7	N/A	N/A	N/A	1/1
Ms. Ng Siu Hung	7/7	N/A	N/A	N/A	1/1
Non-executive Directors:					
Mr. Tsai Chang-Hai(2)	7/7	N/A	N/A	N/A	1/1
Mr. Zeng Xiaojun(2)	7/7	N/A	N/A	N/A	1/1
Independent Non-executive Directors:					
Ms. Ho Mei-Yueh(3)	7/7	3/3	1/1	N/A	1/1
Mr. Jason Wan	7/7	3/3	2/2	1/1	1/1
Mr. Lau Chun Fai Douglas(4)	7/7	3/3	2/2	1/1	1/1
Mr. Qiu Weifa(5)	N/A	N/A	0/1	0/1	N/A

1. Chairman of the Board and the Nomination Committee.
2. Appointed on 19 January 2016.
3. Appointed on 19 January 2016, therefore did not attend meetings of the Nomination Committee and the Remuneration Committee that were held on that same day prior to her appointment.
4. Chairman of the Audit Committee and the Remuneration Committee.
5. Resigned on 19 January 2016.

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

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, reviews and approves annual business plan and financial budget, matters involving a conflict of interest for a substantial Shareholder or Director, 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.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expenses, upon making request to the Board.

Directors' Liability Insurance

The Company has subscribed appropriate and sufficient insurance coverage on directors' liabilities in respect of legal actions taken against the Directors arising out of corporate activities. The coverage and the sum insured under the policy are reviewed and renewed on an annual basis.

Remuneration of Directors and Senior Management

The remuneration of Directors and the members of the senior management by band for the Year 2016 is set out below:

Remuneration bands (HK$)	Number of persons
0 – 1,000,000	17
1,000,001 – 1,500,000	5
1,500,001 – 2,000,000	3
2,000,001 – 2,500,000	1
2,500,001 – 3,000,000	3
3,000,001 – 3,500,000	1
3,500,001 – 4,000,000	1
	31

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 notes 8 and 9 to the financial statements.

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 2016, 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 69 of this report, with details of his diversity of skills, expertise, experience and qualifications.

AUDITORS' REMUNERATION

During the Year 2016, the remuneration paid/payable to the Company's external auditors, Ernst & Young, is set out below:

Type of Services	RMB'000
Annual audit services	3,785
Review of quarterly results and other assurance services	2,790
Non-audit services	540
Total	7,115

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board, through the Audit Committee, has reviewed the effectiveness of the Group's risk management and internal control systems on an annual basis covering the Year 2016, among others, the financial, operational and compliance controls. No material deficiencies have been identified during the review. The Board has also reviewed the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions.

In respect of the Year 2016, the Board considered the internal control and risk management systems of the Group are effective and adequate. No significant areas of concern that might affect the Shareholders were identified during the Year 2016.

SHAREHOLDERS' AND INVESTOR RELATIONS

The Board recognises the importance of maintaining clear, timely and effective communication with the Shareholders and investors. To the best belief of the Board, the Company has published all of its announcements in time in accordance with the Listing Rules. The Company also commenced the publishing of quarterly results in Year 2016 voluntarily. Besides, the Board maintains regular dialogues with institutional investors and analysts and participates in media interviews and specialist industry forums to keep Shareholders and investors timely 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. The last Shareholders' meeting was the AGM held on 26 May 2016 at South Gate, Level B1, Shangri-La's Far Eastern Plaza Hotel, Taipei, 201 Tun Hwa South Road, Section 2, Taipei, Taiwan for approval of, among other things, the audited consolidated financial statements and the Report of the Directors and of the Auditors for the Year 2015, the general mandates to issue shares of the Company (the"**Shares**") and repurchase Shares, the re-election of the retiring Directors, authorizing the Board to fix the Directors' remuneration and emolument and the payment of a final dividend. Particulars of the major items considered at the AGM are set out in the circular of the Company dated 21 April 2016. All proposed ordinary resolutions were passed by way of poll at the AGM.

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

To promote effective communication, the Company maintains a website at www.ausnutria.com.hk 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 2016 and up to the date of this report, there had been no significant change in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Stock Exchange and the Company after each general meeting.

Convening an Extraordinary General Meeting by Shareholders

Pursuant to Article 58 of the Articles of Association of the Company, any one or more 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; and such 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 requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

There are no provisions in the Articles of Association for Shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, H.K.
For the attention of the Board of Directors

Shareholders are encouraged to provide, amongst other things, in particular, their email addresses to the Company in order to facilitate timely and effective communication.

Directors' Report

The Directors hereby present their report and the audited financial statements for the Year 2016.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company of the Group. The Group is principally engaged in the dairy industry with activities ranging from research and development, milk collection, processing, production, packaging, marketing and distribution of infant formula and other dairy products to customers in the PRC, the Netherlands and other overseas countries. During the Year 2016, the Group also commenced the business in research and development, production, marketing and distribution of nutrition products to customers principally located in the PRC, Australia and New Zealand. Details of the principal activities of the Company's subsidiaries are set out in note 1 to the financial statements.

An analysis of the Group's performance for the Year 2016 by operating segment is set out in note 4 to the financial statements of this report.

BUSINESS REVIEW

A fair review of the business of the Group during the Year 2016 and the Group's future business development are provided in the section headed "Business Review and Outlook" on pages 17 to 26 of this report. A discussion of the principal risks and uncertainties facing the Group and an analysis of the Group's performance using key performance indicators are included in the section headed "Management Discussion and Analysis" on pages 27 to 36 of this report. In addition, a discussion on relationships with the Company's stakeholders are included in the sections headed "Shareholders and Investor Relations" on page 47 of this report. The reviews form part of this directors' report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is highly aware of the importance of environmental protection and has not noted any material non-compliance with any relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. During the production process, the Group has implemented environmental protection measures, including procedures related to energy use control, waste water and waste air discharge management. The Group has also encouraged staff to be environmental friendly at work by consuming the electricity and paper according to actual needs, so as to reduce energy consumption and minimize unnecessary waste.

In accordance with Rule 13.91 of the Listing Rules, the Company will publish an Environmental, Social and Governance Report within three months after the publication of this annual report in compliance with the provisions set out in the Environmental, Social and Governance Reporting Guide in Appendix 27 to the Listing Rules.

RESULTS AND DIVIDENDS

The Group's results for the Year 2016 are set out in the financial statements on pages 79 to 86 of this report.

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

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 171 to 172 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 2016 are set out in note 13 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Group are set out in note 25 to the financial statements.

SHARE CAPITAL

There was no movements in the Company's authorised or issued share capital during the Year 2016.

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 2016 and up to the date of this report.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year 2016 are set out in note 42 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's accumulated losses amounted to RMB97,893,000 (31 December 2015: RMB70,757,000). As at 31 December 2016, the Company's share premium account available for distribution under certain conditions amounted to RMB911,574,000 (31 December 2015: RMB945,159,000), of which RMB55,805,000 (31 December 2015: RMB33,585,000) has been proposed as a final dividend for the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year 2016, sales to the Group's five largest customers accounted for approximately 16.5% (Year 2015: 18.7%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 7.8% (Year 2015: approximately 8.8%). Purchases from the Group's five largest suppliers accounted for approximately 28.8% (Year 2015: approximately 24.2%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 14.6% (Year 2015: approximately 11.7%).

None of the Directors or any of their close 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 or the five largest suppliers.

DIRECTORS

The Directors who were in the office during the Year 2016 and up to the date of this report were as follows:

Executive Directors:

Mr. Yan Weibin	*(Chairman)*
Mr. Lin Jung-Chin	
Mr. Bartle van der Meer	*(Chief Executive Officer)*
Ms. Ng Siu Hung	

Non-executive Directors:

Mr. Tsai Chang-Hai	(Appointed on 19 January 2016)
Mr. Zeng Xiaojun	(Appointed on 19 January 2016)

Independent non-executive Directors:

Ms. Ho Mei-Yueh	(Appointed on 19 January 2016)
Mr. Jason Wan	
Mr. Lau Chun Fai Douglas	
Mr. Qiu Weifa	(Resigned on 19 January 2016)

In accordance with Articles 83(3) and 84 of the Articles of Association, Mr. Yan Weibin, Mr. Bartle van der Meer and Mr. Lau Chun Fai Douglas will retire by rotation at the conclusion of the forthcoming AGM and, being eligible, offer themselves for re-election. An ordinary resolution approving their re-elections will be proposed at the forthcoming AGM.

The Company has received confirmations of independence from each of the INEDs in accordance with Rule 3.13 of the Listing Rules for the Year 2016 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 "Management Profiles" 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 2016.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors, NEDs and INEDs has entered into a service contract with the Company for a term of 3 years, 2 years and 2 years, respectively, which will continue thereafter unless otherwise terminated in accordance with the terms of the service contract.

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 after taking into consideration the Directors' duties, responsibilities and performance and the results of the Group as well as the prevailing market conditions.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save for the transactions as disclosed in the section headed "Connected Transactions" below and the related party transactions as disclosed in note 38 to the financial statements, no Director or an entity connected with the Director or the controlling shareholders of the Company had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year 2016.

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

As at 31 December 2016, 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 Shares or underlying Shares	Long/Short Position	Nature of interest	Approximate percentage of issued share capital [5]
Mr. Yan Weibin ("**Mr. Yan**")	1,200,000	Long position	Beneficial owner[1]	0.09%
	106,539,085	Long position	Interest of a controlled corporation[2]	8.54%
Mr. Lin Jung-Chin ("**Mr. Lin**")	1,200,000	Long position	Beneficial owner[1]	0.09%
	551,500	Long position	Interest of spouse[3]	0.04%
Mr. Bartle van der Meer ("**Mr. van der Meer**")	1,200,000	Long position	Beneficial owner[1]	0.09%
	162,205,230	Long position	Interest of a controlled corporation[4]	13.00%
Ms. Ng Siu Hung	1,000,000	Long position	Beneficial owner[1]	0.08%
Mr. Tsai Chang-Hai	300,000	Long position	Beneficial owner[1]	0.02%
Mr. Zeng Xiaojun	300,000	Long position	Beneficial owner[1]	0.02%
Ms. Ho Mei-Yueh	300,000	Long position	Beneficial owner[1]	0.02%
Mr. Jason Wan	300,000	Long position	Beneficial owner[1]	0.02%
Mr. Lau Chun Fai Douglas	300,000	Long position	Beneficial owner[1]	0.02%

Notes:

1. These are the Shares subject to the exercise of the share options granted by the Company to the Directors on 21 January 2016 under the Share Option Scheme (as defined below).

2. The Shares are held by Ausnutria Holding Co Ltd ("**Ausnutria BVI**"), a company wholly-owned by Mr. Yan. Mr. Yan is therefore deemed to be interested in 106,539,085 Shares under the SFO.

3. The Shares are held by Ms. Lin O, Li-Chu, the spouse of Mr. Lin. Mr. Lin is therefore deemed to be interested in 551,500 Shares under the SFO.

4. The Shares are held by Dutch Dairy Investments HK Limited, which is in turn wholly-owned by Dutch Dairy Investments B.V. ("**DDI**"). DDI is owned as to 50.00% by PMH Investments B.V., which is beneficially owned as to 60.10% by Mr. van der Meer and 39.90% by Mr. Durk Andries van der Meer, being the son of Mr. van der Meer. Mr. van der Meer is therefore deemed to be interested in 162,205,230 Shares under the SFO.

5. As at 31 December 2016, the total number of the issued Share of the Company was 1,247,732,530.

Save as disclosed above, as at 31 December 2016, 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 grant of share options on 21 January 2016 and 6 July 2016 as set out under the Share Option Scheme (as defined below), at no time during the year 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

As at 31 December 2016, 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 share	Nature of interest	Approximate percentage of issued share capital
Ausnutria BVI (Note 1)	106,539,085	Beneficial owner	8.54%
BioEngine Capital Inc. ("**BioEngine Capital**") (Note 2)	123,355,375	Beneficial owner	9.89%
Center Laboratories, Inc. ("**Center Lab**") (Note 2)	361,738,129 144,193,643	Beneficial owner Interest of controlled corporations	28.99% 11.56%
DDI (Notes 3 and 4)	162,205,230	Interest of controlled corporation	13.00%
Dutch Dairy Investments HK Limited (Note 4)	162,205,230	Beneficial owner	13.00%
Fan Deming BV (Notes 5 and 7)	162,205,230	Interest of controlled corporation	13.00%
Manids B.V. (Notes 3 and 6)	162,205,230	Interest of controlled corporation	13.00%
PMH Investments BV (Notes 3 and 7)	162,205,230	Interest of controlled corporation	13.00%
Reditus Holding BV (Notes 7 and 8)	162,205,230	Interest of controlled corporation	13.00%
Ms. Chen Miaoyuan (Note 10)	106,539,085	Interest of spouse	8.54%
Mr. Durk Andries van der Meer (Notes 8 and 9)	162,205,230	Interest of controlled corporation	13.00%
Mr. Ignatius Petrus Jorna (Note 6)	162,205,230	Interest of controlled corporation	13.00%

Notes:

1. Ausnutria BVI is wholly-owned by Mr. Yan. Mr. Yan is therefore deemed to be interested in 106,539,085 Shares under the SFO.

2. Both BioEngine Capital and BioEngine Technology Development Inc. are non-wholly-owned subsidiaries of Center Lab. Center Lab is therefore deemed to be interested in 123,355,375 shares and 20,838,268 shares held by BioEngine Capital and BioEngine Technology Development Inc., respectively under the SFO.

3. DDI is owned as to 50.00% by each of PMH Investments BV and Manids B.V.

4. Dutch Dairy Investments HK Limited is wholly-owned by DDI.

5. Fan Deming BV is wholly-owned by Mr. van der Meer.

6. Manids B.V. is owned as to 99.84% by Mr. Ignatius Petrus Jorna.

7. PMH Investments BV is owned as to 60.10% by Fen Deming BV and 39.90% by Reditus Holding BV.

8. Reditus Holding BV is wholly-owned by Mr. Durk Andries van der Meer.

9. Mr. Durk Andries van der Meer is the son of Mr. van der Meer.

10. Ms. Chen Miaoyuan is the spouse of Mr. Yan. Ms. Chen Miaoyuan is therefore deemed to be interested in 106,539,085 Shares under the SFO.

Save as disclosed above, as at 31 December 2016, 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 (the "**Invested Entity**") in which the Company holds an equity interest;

ii. any NEDs (including the 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.

(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) as defined in the prospectus of the Company dated 24 September 2009 (the "**General Mandate Limit**"). Since the date of the adoption of the Scheme and up to the date of this report, options carrying the rights to subscribe for a total of 46,815,000 Shares had been granted under the Scheme and thus the total number of Shares available for issue under the General Mandate Limit is 9,363,000, representing approximately 0.75% of the total issued share capital as at the date of this report.

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 (the "**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 close associates (or his associates if the participant is a connected person (as defined in the Listing Rules)) 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. The grantee, his associate and all of the connected persons of the Company must abstain from voting in favour at such general meeting.

(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) 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.

(h) Period of the 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 (i.e. valid till 20 January 2026).

Present status of the Scheme

On 21 January 2016 and 6 July 2016, options to subscribe for a total of 46,815,000 Shares of HK$0.10 each were granted to certain eligible participants pursuant to the Scheme, details as follows:

Grantees	Date of grant	Exercise period	Exercise price per option	Number of options: Outstanding as at 1 January 2016	Granted during the Year 2016	Exercised during the Year 2016	Cancelled during the Year 2016	Lapsed during the Year 2016	Outstanding as at 31 December 2016
Directors									
Mr. Yan Weibin	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	1,200,000	–	–	–	1,200,000
Mr. Lin Jung-Chin	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	1,200,000	–	–	–	1,200,000
Mr. Bartle van der Meer	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	1,200,000	–	–	–	1,200,000
Ms. Ng Siu Hung	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	1,000,000	–	–	–	1,000,000
Mr. Tsai Chang-Hai	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	300,000	–	–	–	300,000
Mr. Zeng Xiaojun	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	300,000	–	–	–	300,000
Ms. Ho Mei-Yueh	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	300,000	–	–	–	300,000
Mr. Jason Wan	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	300,000	–	–	–	300,000
Mr. Lau Chun Fai Douglas	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	300,000	–	–	–	300,000
Sub-total				–	6,100,000	–	–	–	6,100,000
Other									
Eligible participants	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	28,700,000	–	–	(200,000)	28,500,000
Eligible participants	06/07/2016	06/07/2017 – 20/01/2021	HK$2.45	–	12,015,000	–	–	–	12,015,000
Total				–	46,815,000	–	–	(200,000)	46,615,000

Note:

On 21 January 2016 and 6 July 2016, options to subscribe respectively for 34,800,000 Shares (the "**First Batch of Options Granted**") and 12,015,000 Shares (the "**Second Batch of Options Granted**") of HK$0.10 each were granted to certain eligible participants pursuant to the Scheme. Further details of the First Batch of Options Granted and the Second Batch of Options Granted are set out in the announcements of the Company dated 21 January 2016 and 6 July 2016 respectively.

The closing prices of the Shares immediately before the dates of grant were HK$2.32 and HK$2.25 per Share respectively.

All options granted pursuant to the Scheme in 2016 shall vest in the grantees in the following manner:

The First Batch of Options Granted

- One-third was vested on 21 January 2017;
- One-third shall vest on 21 January 2018; and
- One-third shall vest on 21 January 2019.

The Second Batch of Options Granted

- One-third shall vest on 6 July 2017;
- One-third shall vest on 6 July 2018; and
- One-third shall vest on 6 July 2019.

CONNECTED TRANSACTIONS

Acquisition of the Entire Equity Interest in Hunan Mornring Foodstuff Co., Ltd.

On 11 July 2016, Ausnutria China and Hunan XinDaXin entered into a share transfer agreement (the "**Mornring Agreement**") pursuant to which Ausnutria China agreed to acquire and Hunan XinDaXin agreed to sell the entire equity interest in Hunan Mornring, the principal activity of which is the holding of the Changsha Properties that is adjacent to the Group's existing production facility in Changsha city, the PRC, at a consideration of RMB28.5 million. The purpose of the Mornring Acquisition is to facilitate the future expansion of the Group's production and storage facilities in Changsha city, the PRC. The consideration was determined after arm's length negotiation between Ausnutria China and Hunan XinDaXin based on the appraised value of the Changsha Properties reported under a valuation report as produced by an independent qualified appraisal company in Hong Kong.

As at the date of entering into the Mornring Agreement, Mr. Yan Weibin, an executive Director, is a director of Hunan XinDaXin. Further, Hunan XinDaXin was beneficially owned by Mr. Yan Weibin as to approximately 9.76% and Mr. Wu Yueshi, a former executive Director, as to the remaining of 90.24%. In view of the above, Hunan XinDaXin is therefore regarded as a connected person of the Company. Accordingly, the Mornring Acquisition constituted a connected transaction of the Company pursuant to Chapter 14A of the Listing Rules. As the applicable percentage ratios as defined under the Listing Rules in respect of the Mornring Acquisition exceed 0.1% but are less than 5%, the Mornring Acquisition is only subject to the reporting and announcement requirements but exempt from the shareholders' approval requirements pursuant to Rule 14A.76(2) of the Listing Rules.

Further details regarding the Mornring Acquisition are set out in the announcement of the Company dated 11 July 2016. The Mornring Acquisition was completed in July 2016.

Saved as disclosed above, the Directors are not aware any related party transactions disclosed in note 38 to the financial statements constitute connected transactions of the Group. The Directors are also not aware any other transactions constitute connected transactions of the Group for the Year 2016, which are subject to reporting, announcement and independent shareholder's approval requirements under Chapter 14A of the Listing Rules. The Directors confirm that the Company has complied with the disclosure requirements of the connected transactions in accordance with chapter 14A of the Listing Rules.

COMPLIANCE ADVISORS' INTEREST

The Company extended the appointment of Asian Capital (Corporate Finance) Limited ("**ACCF**") as the Company's compliance advisor on an on-going basis for consultation on compliance with the Listing Rules for a period of one year commencing from 24 August 2016 (which the Company is entitled to terminate the appointment by serving two months prior notice in writing). During the term of the appointment, ACCF will be accountable to the Audit Committee. As notified by ACCF, during the Year 2016 and up to the date of this report, neither ACCF nor any of its directors, employees or associates had any interests in the Shares or shares of any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the Shares or 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.

CORPORATE GOVERNANCE CODE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 37 to 48 of this report.

PERMITTED INDEMNITY PROVISION

The Company has subscribed appropriate and sufficient insurance coverage on directors' and officers' liability insurance throughout the Year 2016, which provides appropriate cover for the Directors and officers of the Company.

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
14 March 2017

Management Profiles

Biographical details of the Directors and the senior management of the Group for the Year 2016 and up to the date of this report are set out below:

DIRECTORS

Executive Directors

Mr. Yan Weibin ("Mr. Yan"), Chairman

Mr. Yan, aged 51, was appointed as executive Director on 8 June 2009 and elected as chairman of the Board on 7 June 2013. Mr. Yan is the sole shareholder and director of Ausnutria BVI, one of the substantial Shareholders, and also a director of a number of the Company's subsidiaries, including Ausnutria China. He joined the Group in September 2003 when Ausnutria China is established. Mr. Yan is responsible for leading the Board and ensuring 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 bachelor's degree in engineering and a master's degree in business administration. Mr. Yan was 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 listed on the Shenzhen Stock Exchange, from 2004 to January 2016. At Longping High-tech, he served as chief executive officer from 2004 to April 2010, vice chairman and chief financial officer from April 2010 to December 2011, chief executive officer and chief financial officer from December 2011 to June 2012 and vice president from June 2012 to January 2016. Mr. Yan resigned all his duties in Longping High-tech in January 2016. Mr. Yan is currently a shareholder and director of Hunan Xin Da Xin Co., Ltd.*（湖南新大新股份有限公司）.

Mr. Lin Jung-Chin ("Mr. Lin")

Mr. Lin, aged 61, was appointed as executive Director on 12 December 2014. Mr. Lin is a shareholder and director of Center Lab and BioEngine Capital Inc. ("**BioEngine Capital**"), both being the substantial Shareholders. Mr. Lin is mainly responsible for the overall corporate strategy, planning and business development of the Group. Mr. Lin graduated in pharmacy from Taipei Medical University and was awarded an honorary doctorate in medicine by Taipei Medical University in 2010. He is currently chairman of Center Lab and holds directorships or serves as a member of the senior management of over ten companies in the biotechnology industry. Mr. Lin has extensive experience in directing corporate reorganisations and restructurings and successfully directed the initial public offering for a number of companies. He actively engages in the investment planning and integration of the biotechnology industry.

Management Profiles

Mr. Bartle van der Meer ("Mr. van der Meer"), Chief Executive Officer

Mr. van der Meer, aged 71, was appointed as the executive Director and CEO of the Company on 7 June 2013. Mr. van der Meer is one of the founders of Ausnutria Hyproca and has been involved in the strategic management since the establishment of Ausnutria Hyproca in 1994. He was also a member of the board of directors and chief executive officer of Ausnutria Hyproca since 2012 to April 2015. 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 50.0% equity interests in DDI, a substantial Shareholder, 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")

Ms. Ng, aged 48, was appointed as executive Director on 19 September 2009. Ms. Ng is also an executive director of Ausnutria China and oversees the brand and public relations division, primarily responsible for the brand building, investor relations and other public relations affairs of Ausnutria China. She studied applied English language at Changsha University and graduated at 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 subsequently 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.

Non-executive Directors

Mr. Tsai Chang-Hai ("Mr. Tsai")

Mr. Tsai, aged 67, was appointed as NED on 19 January 2016. Mr. Tsai graduated with a bachelor's degree in medicine from China Medical University and holds a doctorate of medical science from The University of Tokyo. Mr. Tsai has extensive knowledge and expertise in biomedicine. Mr. Tsai is the founder and chairman of Asia University and its affiliated hospital. He is also a professor and chairman of China Medical University. Mr. Tsai serves the role of director in Taiwan Fertilizer Co., Ltd., a company listed on the Taiwan Stock Exchange. He is also chairman of the board of directors of Lumosa Therapeutics Co., Ltd. and a director of Medeon Biodesign, Inc., both companies are listed on the Taipei Exchange in Taiwan. Mr. Tsai is also a director of BioEngine Capital. Mr. Tsai was a member of Supervisory Committee（監理委員會）of the National Health Insurance Administration of the Ministry of Health and Welfare of Taiwan, deputy convener of the Central Medical Review Committee（中區醫療審查委員會）, a counselor of the Ministry of Health and Welfare, a director of the board of the National Health Research Institutes and chairman of Taiwan Hospital Association.

Mr. Zeng Xiaojun ("Mr. Zeng")

Mr. Zeng, aged 42, was appointed as NED on 19 January 2016. He graduated in trade economics from the Department of International Economics and Trade of Jiangxi University of Finance and Economics. Mr. Zeng is currently a member of the executive management team, chief strategy officer and the managing partner of Shenzhen GTJA Investment Group Co., Ltd. He is responsible for investment research, investment management, risk management, branding and public relations and corporate strategies. Mr. Zeng has extensive expertise in the biotechnology industry. From 1996 to 2014, he served as the senior management of several pharmaceutical companies, namely China Resources Sanjiu Pharmaceutical Trading Co., Ltd.*（深圳華潤三九醫藥貿易有限公司） and Zhejiang Conba Pharmaceutical Sales Co., Ltd. where he was mainly responsible for market research and took an active part in sales, corporate strategies and new product introduction and brand management.

Independent Non-executive Directors

Ms. Ho Mei-Yueh ("Ms. Ho")

Ms. Ho, aged 66, was appointed as INED on 19 January 2016. She graduated from National Taiwan University with a bachelor of agricultural chemistry degree. She is currently an independent director of AU Optronics Corp., Advanced Semiconductor Engineering Inc., Kinpo Electronics Inc. and Bank of Kaohsiung Ltd., the shares of which are listed on the Taiwan Stock Exchange. Ms. Ho has over 30 years of working experience as a civil servant in Taiwan, with a focus on economic affairs. Ms. Ho was the Minister of the Ministry of Economic Affairs, Taiwan from May 2004 to January 2006 and the chairperson of the Council for Economic Planning and Development Taiwan from May 2007 to May 2008. During her tenure as a civil servant, Ms. Ho involved in the formulation of various national policies, including the National Development Plan for Taiwan. From May 2013 to May 2015, Ms. Ho was also an independent director of Taiwan Pelican Express Co. Ltd., the shares of which are listed on the Taiwan Stock Exchange.

Management Profiles

Mr. Jason Wan ("Mr. Wan")

Mr. Wan, aged 53, was appointed as INED on 19 September 2009. Mr. Wan is currently a tenured full professor, Associate Chair for the Department of Food Science and Nutrition, and Associate Director for the Institute for Food Safety and Health, Illinois Institute of Technology, the USA. Mr. Wan completed a PhD at Deakin University, Australia in 1992. Prior to that, he graduated with a bachelor of science degree from Hunan Agricultural University in 1983 and a master of science degree in dairy science and processing from Northeast Agricultural University in 1986. Mr. Wan was a lecturer in the Department of Food Science and Technology at Northeast Agricultural University from 1986 to 1988 and a visiting scientist at the Food Research Institute of 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 and a senior research scientist at CSIRO Food Science Australia from 1995 to 2009. Prior to his current position, Mr. Wan was a research professor in food microbiology and biotechnology at Illinois Institute of Technology, the USA from 2009 to 2015. Mr. Wan has extensive knowledge and expertise in the area 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, including those supporting a number of PhD scholars relating to whey proteins and biological properties, as well as major research grants for research relating to dairy processing.

Mr. Lau Chun Fai Douglas ("Mr. Lau")

Mr. Lau, aged 44, was appointed as INED on 2 January 2015. Mr. Lau has over 18 years of experience in auditing, accounting and financial and corporate management. Mr. Lau graduated from the University of New South Wales with a bachelor of commerce degree in accounting and finance. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in England and Wales, Institute of Chartered Accountants in Australia and CPA Australia and a founding member of the Institute of Accountants Exchange. Before joining the Group, Mr. Lau was a partner at Ernst & Young (Assurance and Advisory Business Services) Hong Kong and Beijing and a regional director (China and Hong Kong) of the Institute of Chartered Accountants in English and Wales. Mr. Lau is an independent non-executive director of Chanjet Information Technology Company Limited (Stock code: 1588) since 2011, and GME Group Holdings Limited (Stock code: 8188) since February 2017.

Mr. Qiu Weifa ("Mr. Qiu")

Mr. Qiu, aged 72, was appointed as INED on 19 September 2009 and resigned as INED on 19 January 2016. Mr. Qiu graduated from the Central Institute of Finance and Banking*（中央財政金融學院）and has senior economist qualifications*（高級經濟師）. Mr. Qiu was vice general manager of Bank of China (Singapore branch), alternate general manager of The Kwangtung Provincial Bank (Singapore branch) and head of branch (Hunan branch) of Bank of China. He has over 33 years of experience in the banking sector, holding management positions at various banking institutions.

SENIOR MANAGEMENT

Mr. Wong Wei Hua Derek ("Mr. Wong")

Mr. Wong, aged 44, is chief financial officer and company secretary of the Company. Mr. Wong joined the Group as deputy CFO in July 2011 and was appointed as joint Company Secretary (later redesignated as Company Secretary on 3 December 2012) and CFO on 26 September 2011. Mr. Wong has over 19 years of experience in auditing and financial and corporate management. Mr. Wong graduated from York University with a bachelor's degree in accounting and a bachelor's 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. Liu Yuehui ("Mr. Liu")

Mr. Liu, aged 52, is an executive director and executive vice president of Ausnutria China. Shortly after the establishment of Ausnutria China, he joined the Group 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 held management positions in various dairy factories and has over 10 years of experience in the industry. Mr. Liu was the assistant to 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**"), whose shares are listed on the Shenzhen Stock Exchange. He is primarily responsible for administration, back-office functions, human resources, judicial affairs, public relations and new ventures of Ausnutria China.

Mr. Dai Zhiyong ("Mr. Dai")

Mr. Dai, aged 42, is an executive director and vice chairman, chief engineer, and general manager of the upstream supply subsidiary, of Ausnutria China. Shortly after the establishment of Ausnutria China, he joined the Group on 18 September 2003. Mr. Dai graduated from Xiangtan University with a bachelor of chemistry degree. Mr. Dai held a management position in a dairy company for a number of years and has almost 20 years of experience in the industry. Mr. Dai served Hunan Ava Nanshan Dairy as vice factory manager and person in charge of the research and development department of Inner Mongolia Ya Ke Shi Ru Factory*（內蒙古牙克石乳品廠）and was engaged in milk powder research and development works. Mr. Dai is primarily responsible for the research and development, quality control and supply chain management of Ausnutria China.

Management Profiles

Mr. Deng Shenhui ("Mr. Deng")

Mr. Deng, aged 43, is chief operation officer of Ausnutria China. He joined the Group in August 2011. Mr. Deng graduated from Central South University, majoring in computer science. Mr. Deng held positions at multiple foreign computer software consulting companies and has over ten years of experience in the industry. Mr. Deng served as department manager of the China Region of the Asia Pacific Sales Services Department at Oracle Corp. Mr. Deng is mainly responsible for the daily operation and management of Ausnutria China, providing technical support to the departments and business units at the headquarters and the affairs relating the trade union. He also oversees the operation of the information technology and sales management divisions, trade union, Eurlate, KA and e-commerce, and assists Mr. Liu and Mr. Wang in providing support for the daily management of human resources and financial affairs.

Ms. Li Yimin ("Ms. Li")

Ms. Li, aged 42, is vice president of Ausnutria China and general manager of Hyproca Nutrition Co., Ltd. ("**Hyproca Nutrition**"), a non-wholly-owned subsidiary of the Company. She joined the Group in February 2011. Ms. Li graduated from Sichuan University with a master's degree in business administration and held managerial positions at various enterprises. Ms. Li is mainly responsible for coordinating the strategy, business and other overseas market affairs of Ausnutria China and the overall operation of Hyproca Nutrition.

Mr. Qu Zhishao ("Mr. Qu")

Mr. Qu, aged 39, is vice president of Ausnutria China, general manager of Puredo Health Service (Changsha) Co., Ltd.*（美納多健康服務（長沙）有限公司）and chairman of Globlait Nutrition (Changsha) Co., Ltd.* ("**Globlait Nutrition**")（澳優液態營養品（長沙）有限公司）, both companies are non-wholly-owned subsidiaries of Ausnutria China. He joined the Group upon the establishment of Ausnutria China and was head of the marketing department, regional manager, assistant to the chief executive officer and sales director for the southern region, chief marketing officer and general manager of the marketing department. Mr. Qu holds a bachelor's degree in arts from Xiangtan University and has engaged in dairy advertising strategy, sales planning, and marketing and sales management since 2001. He has over 16 years of experience in the industry.

Mr. Liu Yubiao ("Mr. Liu")

Mr. Liu, aged 44, is vice president of Ausnutria China and general manager of Hyproca Bioscience Co., Ltd.*（海普諾凱生物科技有限公司）, a non-wholly-owned subsidiary of the Company. He joined the Group upon the establishment of Ausnutria China and served as regional manager of Hunan province, manager of the Central China region (covering five provinces) and deputy general manager of the Allnutria division. Mr. Liu has over 15 years of experience in sales management in the dairy industry. He is mainly responsible for the overall operations of Hyproca Bioscience Co., Ltd.

Mr. Zhao Li ("Mr. Zhao")

Mr. Zhao, aged 48, joined the Group in April 2016 as general manager of 廣州雲養邦互聯科技有限公司. He became vice president of Ausnutria China on 9 December 2016 and is responsible for overseeing the Allnutria division and continues to fulfill his duties as general manager of 廣州雲養邦互聯科技有限公司. Mr. Zhao worked at Biostime Inc. (Guangzhou)* ("**Biostime**")（廣州市合生元生物製品有限公司）during the period between October 2004 and February 2016 and held various positions including general manager of the sales centre of the Biostime group from October 2004 to December 2013, group chief sales officer of the brand development division of the Biostime group from January to September 2014, general manager and group vice president of the brand development division of the Biostime group from October 2014 to March 2015 and chief executive officer and chief experience officer of the Mama100 office of the Biostime group from April 2015 to February 2016 when he resigned all his positions in Biostime. Mr. Zhao obtained a bachelor's degree in Chinese medicine from 湖南中醫學院 in July 1991 and has studied the Executive Master of Business Administration programme of South China University of Technology since December 2009. He has extensive experience in sales and marketing.

Ms. Hong Haoru ("Ms. Hong")

Ms. Hong, aged 35, is secretary of the board of directors of Ausnutria China. Ms. Hong joined the Group in 2011 as supervisor of the secretarial department of Ausnutria China and was later appointed as secretary of the board of directors of Ausnutria China in January 2016. Prior to joining the Group in 2011, she served as secretary to president at Longping High-tech. Ms. Hong graduated from Hunan Agricultural University with a bachelor of arts degree. Ms. Hong is mainly responsible for the investment and development, supervision of branches and subsidiaries and compliance work of Ausnutria China.

Mr. Chen Tiejun ("Mr. Chen")

Mr. Chen, aged 46, is vice president of Ausnutria China and general manager of Globait Nutrition and is mainly responsible for the overall operations of Globait Nutrition. He joined the Group in September 2015. Mr. Chen graduated from Université du Québec in Canada with a master's degree in business administration. Mr. Chen held various positions in sales management at Nestlé (China) Ltd. for almost 10 years, and subsequently served the liquid milk division of Yili Group for 4 years as assistant to general manager of the marketing department (East China) and nationwide senior training manager. Mr. Chen was also deputy marketing director of the A-share listed Kingenta Ecological Engineering Group Co and was responsible for the affairs of the business college of the corporation. Subsequent to 2012, he worked at 北京優識行銷管理諮詢有限公司, a well-known marketing consultancy in China, as executive president and shareholder partner, focusing on corporate consulting and training. Mr. Chen has over 20 years of experience in the dairy industry.

Management Profiles

Mr. Xiao Guoxiong ("Mr. Xiao")

Mr. Xiao, aged 43, is vice chairman of Ausnutria China and general manager of the Allnutria division. He joined the Group upon the establishment of Ausnutria China and served as market project manager, sales director of the northern China region and membership promotion director of the marketing department. He later took up the role of general manager of the Allnutria division in 2013. Mr. Xiao has qualifications in marketing, and has held positions in relation to the market development, marketing and promotion and sales management for liquid milk and high-end nutritional products since 1998. Mr. Xiao has over 10 years of experience in the industry in relation to budget management and team performance management.

Ms. Froukje Dijkstra ("Ms. Dijkstra")

Ms. Dijkstra, aged 47, is the chief operational officer of Ausnutria Hyproca. She joined the Ausnutria Hyproca Group since 2012. Ms. Dijkstra graduated in business administration. Before joining Ausnutria Hyproca, Ms. Dijkstra had over 20 years of experience in the chemical industry with different positions.

Mr. Evert Schilstra ("Mr. Schilstra")

Mr. Schilstra, aged 57, is the managing director of Hyproca Dairy B.V. and Hyproca Goat Milk B.V. He joined the Ausnutria Hyproca Group in 1996. Mr. Schilstra graduated from the Bolsward Food Technology College in the Netherlands with a bachelor in food technology, specialized in the dairy industry. He has more than 33 years of experience in the dairy industry. Before joining Ausnutria Hyproca, he was engaged in the field of R&D, quality assurance, investment plans and operations and has worked for engineering, multinational and dairy companies in the Netherlands.

Dr. Alfred Haandrikman ("Dr. Haandrikman")

Dr. Haandrikman, aged 59, is the director of the research and development department in Ausnutria Hyproca. He joined Ausnutria Hyproca in November 2012. Dr. 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 manager in Hercules European Research Centre, the Netherlands. From 2006 onwards and before joining the Group, he was appointed as the global research and development director in Lipid Nutrition B.V. and IOI-Loders Croklaan group, a leading company in development of lipids for infant nutrition.

Ms. Susan van Nuland (''Ms. van Nuland")

Ms. van Nuland, aged 47, is the director of marketing of Hyproca Nutrition B.V. She joined Hyproca Nutrition B.V. since 2016. Ms. van Nuland graduated business economics at the Erasmus University of Rotterdam. Ms. van Nuland had over 20 years' experience in marketing and worked at several fast-moving consumer goods companies.

Mr. Johan Westhoff (''Mr. Westhoff")

Mr. Westhoff, aged 37, is the finance manager of Ausnutria Hyproca. He joined the Ausnutria Hyproca Group since 2009. Mr. Westhoff graduated in financial controlling at the Open University in Amsterdam. Before joining Ausnutria Hyproca, Mr. Westhoff has worked at Ventus Group and Ernst & Young.

* For identification purposes only

Independent auditor's report

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

OPINION

We have audited the consolidated financial statements of Ausnutria Dairy Corporation Ltd (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 79 to 170, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

KEY AUDIT MATTERS (continued)

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment testing of goodwill Under IFRSs, the Group is required to at least annually perform the impairment test for goodwill. The carrying value of goodwill amounted to approximately RMB135 million as at 31 December 2016. The impairment test is based on the recoverable values of the respective cash-generating units (the "**CGU(s)**") to which the goodwill is assigned. Management's assessment process is complex and highly judgemental, including the degree of subjectivity of expected future cash flow forecasts, associated growth rates and discount rate. The Company's disclosures about goodwill are included in notes 2.4 and 15 to the financial statements.	Our audit procedures included, among others, evaluating the assumptions and methodologies used by the Group, in particular, discount rate and long term growth rate, with the assistance of our valuation specialists. We paid specific attention to the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historic performance of the respective CGUs and the business development plan. We also focused on the adequacy of the Group's disclosures of goodwill.
Accounting for revenue recognition The Group awards end-customers points for their consumptions, and grants distributors incentives based on their fulfilment of purchase target. The end-customers then can exchange the award points for free products within one year, and the distributors can redeem free products in the next purchase. Under both programs, management allocates the revenue into two parts, the current sales and the deferred income for award points and incentives. The allocation and measurement of revenue is complex and requires significant management judgement and estimates of relevant fair values. The Company's disclosures about revenue recognition are included in notes 2.4 and 5 to the financial statements.	We assessed and tested the design and operation of the controls over revenue allocation including the quality of underlying data and systems. We obtained the computation schedule, checked the calculation, and evaluated the allocation based on the relative fair values, and the key estimates, such as values of free products, with a reference to the historical information, market practice and the subsequent settlement of award points and incentives as at 31 December 2016. We also compared the actual purchase with the target amount for selected distributors to assess the calculation of incentives was in accordance with the incentive scheme.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Accounting for business combination In connection with the acquisition of the nutritional and healthcare business (the "**Business**"), management performed a valuation for the identifiable assets and liabilities of the Business and a purchase price allocation, resulting in a goodwill of RMB12.1 million. The valuation of the assets and liabilities identified in the purchase price allocation was significant to our audit, and the estimation process is complex and based on an external valuation report. The Company's disclosures about the business combination are included in notes 2.4 and 33 to the financial statements.	Our audit procedures included, amongst others, evaluating the competency, independence and objectivity of the valuation experts, and evaluating the assumptions used by the Company and the valuation experts in the preparation of the valuation report with the assistance of our valuation specialists. We particularly focused on the assumptions used in the valuation of intangible assets and property, plant and equipment. We focused on the disclosures in the consolidated financial statements that relate to the acquisition of the Business and the accompanying fair values of the assets and liabilities. We assessed whether those disclosures are compliant with the requirements set forth in IFRS 3, are comprehensive and provide sufficient information concerning the business combination as at the acquisition date.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS 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 IFRSs issued by the IASB 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yee Chung Man.

Ernst & Young
Certified Public Accountants
Hong Kong
14 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	2,740,262	2,103,534
Cost of sales		(1,615,403)	(1,513,568)
Gross profit		1,124,859	589,966
Other income and gains	5	62,631	45,652
Selling and distribution expenses		(646,411)	(497,613)
Administrative expenses		(215,656)	(116,281)
Other expenses		(14,055)	(8,907)
Finance costs	7	(17,849)	(16,045)
Share of profits of associates		4,233	7,019
Profit before tax	6	297,752	3,791
Income tax expense	10	(63,756)	(680)
PROFIT FOR THE YEAR		233,996	3,111
Attributable to:			
Owners of the parent		212,672	50,645
Non-controlling interests		21,324	(47,534)
		233,996	3,111
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic and diluted	12		
Basic			
– For profit for the year (RMB cents)		17.04	4.90
Diluted			
– For profit for the year (RMB cents)		17.01	4.90

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2016

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

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	830,891	586,296
Prepaid land lease payments	14	28,808	1,971
Goodwill	15	135,069	72,053
Other intangible assets	16	150,648	45,679
Investments in associates	17	52,103	32,312
Deposit paid	20	35,000	–
Deferred tax assets	27	154,085	98,794
Total non-current assets		1,386,604	837,105
CURRENT ASSETS			
Inventories	18	800,259	579,857
Trade and bills receivables	19	216,990	185,396
Prepayments, deposits and other receivables	20	194,834	164,097
Tax recoverable		–	719
Pledged deposits	21	778,427	769,738
Time deposits	21	98,270	185,990
Cash and cash equivalents	21	448,262	307,620
Total current assets		2,537,042	2,193,417
CURRENT LIABILITIES			
Trade payables	22	151,934	172,692
Other payables and accruals	23	797,007	475,826
Derivative financial instruments	24	2,482	1,943
Interest-bearing bank loans and other borrowings	25	761,455	756,993
Tax payable		115,711	66,873
Total current liabilities		1,828,589	1,474,327
NET CURRENT ASSETS		708,453	719,090
TOTAL ASSETS LESS CURRENT LIABILITIES		2,095,057	1,556,195

Consolidated Statement of Financial Position

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		2,095,057	1,556,195
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	25	451,155	189,176
Defined benefit plan	26	6,138	12,885
Deferred tax liabilities	27	48,113	26,591
Total non-current liabilities		505,406	228,652
Net assets		1,589,651	1,327,543
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	108,455	108,455
Reserves	31	1,359,614	1,204,224
		1,468,069	1,312,679
Non-controlling interests		121,582	14,864
Total equity		1,589,651	1,327,543

Mr. Yan Weibin
Director

Mr. Bartle van der Meer
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the parent									
	Share capital RMB'000 (note 29)	Share premium account RMB'000	Capital reserve RMB'000 (note 31(i))	Share option reserves RMB'000	Statutory surplus reserve RMB'000 (note 31(ii))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2016	108,455	945,159	(302,835)	–	64,237	(65,244)	562,907	1,312,679	14,864	1,327,543
Profit for the year	–	–	–	–	–	–	212,672	212,672	21,324	233,996
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	–	(26,274)	–	(26,274)	(1,899)	(28,173)
Remeasurement gains on the defined benefit plan, net of tax	–	–	–	–	–	–	5,195	5,195	–	5,195
Total comprehensive income for the year	–	–	–	–	–	(26,274)	217,867	191,593	19,425	211,018
Acquisition of non–controlling interests	–	–	(14,411)	–	–	–	–	(14,411)	10,819	(3,592)
Final 2015 dividend declared	–	(33,585)	–	–	–	–	–	(33,585)	–	(33,585)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(5,838)	(5,838)
Equity-settled share option arrangements	–	–	–	11,793	–	–	–	11,793	–	11,793
Contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	82,312	82,312
Transfer from retained profits	–	–	–	–	20,006	–	(20,006)	–	–	–
At 31 December 2016	108,455	911,574*	(317,246)*	11,793*	84,243*	(91,518)*	760,768*	1,468,069	121,582	1,589,651

Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Attributable to owners of the parent								
	Share capital RMB'000 (note 29)	Share premium account RMB'000	Capital reserve RMB'000 (note 31(i))	Statutory surplus reserve RMB'000 (note 31(ii))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	86,866	456,267	16,974	52,161	(27,093)	522,585	1,107,760	107,168	1,214,928
Profit for the year	–	–	–	–	–	50,645	50,645	(47,534)	3,111
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	(15,918)	–	(15,918)	(1,079)	(16,997)
Remeasurement gains on the defined benefit plan, net of tax	–	–	–	–	–	1,753	1,753	–	1,753
Total comprehensive income for the year	–	–	–	–	(15,918)	52,398	36,480	(48,613)	(12,133)
Acquisition of non-controlling interests	12,114	291,942	(319,809)	–	(22,233)	–	(37,986)	(44,323)	(82,309)
Contribution from non-controlling shareholders	–	–	–	–	–	–	–	5,941	5,941
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	(5,309)	(5,309)
Issue of shares	9,475	198,969	–	–	–	–	208,444	–	208,444
Share issue expense	–	(2,019)	–	–	–	–	(2,019)	–	(2,019)
Transfer from retained profits	–	–	–	12,076	–	(12,076)	–	–	–
At 31 December 2015	108,455	945,159*	(302,835)*	64,237*	(65,244)*	562,907*	1,312,679	14,864	1,327,543

* These components of equity comprise the consolidated reserves of RMB1,359,614,000 (2015: RMB1,204,224,000) as at 31 December 2016 in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		297,752	3,791
Adjustments for:			
Finance costs	7	17,849	16,045
Share of profits of associates		(4,233)	(7,019)
Interest income	5	(37,266)	(31,578)
Depreciation	6	44,429	40,321
Amortisation of other intangible assets	6	10,161	4,717
Amortisation of prepaid land lease payments	6	357	57
Write-off of trade receivables	6	704	3,248
Provision for impairment of inventories	6	55,124	99,820
Loss on disposal of property, plant and equipment	6	1,741	842
Loss on disposal of items of other intangible assets	6	945	460
Equity-settled share option arrangements	6	11,793	–
		399,356	130,704
Increase in inventories		(248,616)	(177,877)
Increase in trade and bills receivables		(28,526)	(28,287)
Increase in prepayments, deposits and other receivables		(51,259)	(59,311)
Decrease in trade payables		(25,504)	(5,186)
Increase in other payables and accruals		307,565	107,460
Cash generated from/(used in) operations		353,016	(32,497)
Interest received		25,659	28,420
Interest paid		(13,961)	(13,577)
Mainland China corporate income tax paid		(71,677)	(32,686)
Overseas tax refunded		1,368	4,891
Net cash flows from/(used in) operating activities		294,405	(45,449)

Consolidated Statement of Cash Flows

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Net cash flows from/(used in) operating activities		294,405	(45,449)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(248,107)	(157,240)
Acquisition of nutrition business and a subsidiary	33	(143,079)	–
Additions to other intangible assets		(36,030)	(8,122)
Increase in time deposits		(98,270)	(185,990)
Increase in pledged time deposits		(8,689)	(552,838)
Maturity of time deposits		185,990	465,100
Dividends received from associates		–	3,452
Investment in an associate		(14,614)	–
Net cash flows used in investing activities		(362,799)	(435,638)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	29	–	208,444
Share issue expenses	29	–	(2,019)
New bank loans and other borrowings		331,695	527,541
Repayments of bank loans		(69,072)	(131,555)
Repayments of other borrowings		(3,962)	(3,954)
Acquisition of non-controlling interests		(3,592)	(82,309)
Contributions from non-controlling shareholders		44,116	5,941
Dividends paid		(33,585)	–
Dividends paid to non-controlling shareholders		(5,838)	(5,309)
Interest element of finance lease rental payments		(3,405)	(952)
Net cash flows from financing activities		256,357	515,828
NET INCREASE IN CASH AND CASH EQUIVALENTS		187,963	34,741
Cash and cash equivalents at beginning of year		307,620	278,277
Effect of foreign exchange rate changes, net		(47,321)	(5,398)
CASH AND CASH EQUIVALENTS AT END OF YEAR		448,262	307,620
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	21	448,262	307,620

1. CORPORATE AND GROUP INFORMATION

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

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

Information about subsidiaries

Particulars of the Company's 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	AUD$500,000	–	100	Investment holding
Ausnutria Dairy (China) Co., Ltd.* ("**Ausnutria China**")	The PRC/ Mainland China	RMB68,633,832	–	100	Production, marketing and distribution of infant nutrition products in Mainland China
Ausnutria Dairy (Dutch) Coöperatief U.A	The Netherlands	EUR13,800,000	–	100	Investment holding
Ausnutria Hyproca B.V. ("**Ausnutria Hyproca**")	The Netherlands	EUR66,221,000	–	100	Investment holding
Hyproca Nutrition Co., Ltd.* ("**HNC**")	The PRC/ Mainland China	RMB10,000,000	–	85	Marketing and distribution of goat milk-based nutrition products in Mainland China

Notes to the Financial Statements
31 December 2016

1. CORPORATE AND GROUP INFORMATION (continued)

Information about 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 Direct	Indirect	Principal activities
Hyproca Dairy B.V. ("**Hyproca Dairy**")	The Netherlands	EUR18,200	–	100	Manufacture of nutrition products
Lypack Leeuwarden B.V.	The Netherlands	EUR18,151	–	100	Processing and packaging of nutrition products
Hyproca Nutrition B.V.	The Netherlands	EUR725,358	–	100	Marketing and distribution of goat milk-based nutrition products
Lyempf Kampen B.V.	The Netherlands	EUR21,500	–	100	Manufacture of nutrition products
Neolac (Shanghai) Nutrition Co. Ltd.*	The PRC/ Mainland China	RMB10,000,000	–	100	Marketing and distribution of nutrition products in Mainland China
Hyproca Nutrition East Limited	Hong Kong/Russia	HK$4,000,000	–	51	Marketing and distribution of nutrition products in Russia
Hyproca Nutrition Middle East FZCO	Dubai	AED1,500,000	–	100	Marketing and distribution of nutrition products in the Middle East
Hyproca Nutrition USA Inc.	United States	US$1	–	100	Marketing and distribution of nutrition products in the United States
Hyproca Nutrition Canada Inc.	Canada	EUR72	–	100	Marketing and distribution of nutrition products in Canada
Hyproca Bio-Science Company Limited*	The PRC/ Mainland China	RMB10,000,000	–	85	Marketing and distribution of nutrition products in Mainland China
Puredo Medical Services (Changsha) Limited	The PRC/ Mainland China	RMB20,000,000	–	85	Marketing and distribution of nutrition products in Mainland China

1. CORPORATE AND GROUP INFORMATION (continued)

Information about 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	
Nutrition Care Pharmaceuticals Pty Ltd (formerly Nutrition Care Holding Pty Ltd) ("**NCP**")	Australia	AUD30,000,000	–	75	Research and development, manufacture and distribution of nutrition products
Pure Nutrition Limited ("**PNL**")	New Zealand	NZD7,500,000	–	60	Processing and packaging of nutrition products
Globlait Nutrition (Changsha) Co. Ltd.	The PRC/ Mainland China	RMB20,000,000	–	67	Marketing and distribution of nutrition products in Mainland China
Guangzhou Cloud Yangbang Interconnection Technology Co. Ltd.	The PRC/ Mainland China	RMB50,000,000	–	60	Marketing and distribution of nutrition products in Mainland China

* Wholly-foreign-owned enterprise

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. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

(i) the materiality requirements in IAS 1;

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

2.3 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:

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instrument*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Lease*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Annual Improvements 2014-2016 Cycle	*Amendments to a number of IFRSs*[5]

1 Effective for annual periods beginning on or after 1 January 2017

2 Effective for annual periods beginning on or after 1 January 2018

3 Effective for annual periods beginning on or after 1 January 2019

4 No mandatory effective date yet determined but available for adoption

5 Annual Improvements 2014-2016 Cycle has amendments to three standards. Amendments to IFRS12 will be effective for annual periods beginning on or after 1 January 2017. Amendments to IFRS 1 and Amendments to IAS 28 will be effective for annual periods beginning on or after 1 January 2018

2.3 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 IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the IASB and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

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

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-Int 15 *Operating Leases – Incentives* and SIC-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

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

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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 other comprehensive income of associates is included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. 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 assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of 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 is measured at fair value with changes in fair value recognised in profit or loss. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

Fair value measurement

The Group measures its derivative financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 and financial assets), 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 of disposal, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(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);
- (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); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 depreciates them accordingly.

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
Land and 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 appropriate, at least 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 and plant and machineries under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 to ten years.

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 to ten 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 ten 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 costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

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

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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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.

Financial assets carried at amortised cost

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

The amount of any impairment loss identified 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 yet 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).

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 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 other expenses in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified at initial recognition, as financial liabilities at fair value through profit or loss, or loans and other borrowings.

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.

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 in profit or loss.

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between 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 is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

Initial recognition and subsequent measurement

The Group's derivative financial instruments include interest rate swaps and call option. 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 values of interest rate swaps and call option are determined using the rates quoted by the Group's bankers to terminate the contracts and the valuation performed by the valuer at the end of the reporting period, respectively.

In case derivative financial instruments are used for hedging, 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 and later reclassified to profit or loss when the hedged item affects profit or loss.

Inventories

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when 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;

(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; and

(iii) dividend income, when the shareholders' right to receive payment has been established.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees for grants after 1 January 2016 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Defined contribution plans

One of the Group's subsidiaries in the Netherlands operates the defined contribution pension plan for certain of its employees. Contribution are made based on a percentage of the employees' basic salaries and are charged to the profit or loss as they become payable in accordance with the pension plan. The assets of the defined contribution pension plan are held separately from those of the Group in an independently administered fund. The Group's employer contribution rests fully with the employees when contributed into the defined contribution pension plan.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Defined benefit plan

One of the Group's subsidiaries in the Netherlands 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.

Remeasurements arising from the defined benefit pension plan, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and

- the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales" and "administrative expenses" in profit or loss by function:

- service costs comprising current service costs, past service costs, gains and losses on curtailments and non-routine settlements; and

- net interest expense or income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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.

Customer loyalty programme

The Group operates a customer loyalty programme 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 programme members and the other components of the sales transactions. The amount allocated to the points earned by the customer loyalty programme members is deferred until the points are redeemed when the Group fulfils its obligations to supply products or when the points expire.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. 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 measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries and associates are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. 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 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 could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

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

Finance lease – Group as lessee

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainly

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2016 was RMB135,069,000 (2015: RMB72,053,000). 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 of disposal and its value in use. The calculation of the fair value less costs of disposal 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.

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 judgements and estimation. Where the actual outcome or expectation in future is different from the original estimates, such differences will impact on the carrying value of the trade receivables and impairment loss in the periods in which such estimates have been changed. No impairment loss was recognised as at 31 December 2016 (2015: Nil). Further details are contained in note 19.

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, 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 27.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainly (continued)

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 2016 was RMB44,429,000 (2015: RMB40,321,000). Further details are contained in note 13.

Defined benefit plan

The Group's subsidiaries in the Netherlands operate 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 the reporting period based on high quality corporate bonds with currency and term similar to the estimated term of benefit obligations. In calculating the Group's obligations in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 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.

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 had three reportable operating segments in 2016 as follows:

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

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2016

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

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2015

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

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

Information about a major customer

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

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

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

6. PROFIT BEFORE TAX

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

	Notes	2016 RMB'000	2015 RMB'000
Cost of inventories sold		1,560,279	1,413,748
Write-down of inventories to net realisable value		55,124	99,820
Cost of sales		1,615,403	1,513,568
Depreciation	13	44,429	40,321
Amortisation of lease prepayments for land use rights	14	357	57
Amortisation of other intangible assets	16	10,161	4,717
Research and development costs		27,038	18,995
Minimum lease payments under operating leases		7,132	3,935
Loss on disposal of property, plant and equipment*		1,741	842
Foreign exchange differences, net	5	(11,692)	(3,414)
Write-off of trade receivables*		704	3,248
Loss on disposal of items of other intangible assets*		945	460
Auditor's remuneration		6,575	5,637
Advertising and promotion expenses		312,291	203,623
Employee benefit expenses (including directors' remuneration) (note 8):			
Wages, salaries and staff welfare		331,916	250,108
Equity share option expense		11,793	–
Pension scheme contributions**		20,828	22,136
		364,537	272,244

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

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2016 RMB'000	2015 RMB'000
Interest on bank loans, overdrafts and other loans	21,969	16,110
Interest on finance leases	669	952
Total interest expense on financial liabilities not at fair value through profit or loss	22,638	17,062
Less: Interest capitalised	(5,272)	(2,533)
	17,366	14,529
Other finance costs:		
Unrealised loss on an interest rate swap (note 24)	483	1,516
	17,849	16,045

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 RMB'000	2015 RMB'000
Fees	1,905	1,095
Other emoluments:		
Salaries, allowances and benefits in kind	2,265	2,101
Equity-settled share option expense	1,911	–
Pension scheme contributions	59	14
	4,235	2,115
	6,140	3,210

During the year, all directors were granted share options in respect of their services provided to the Group under the share option scheme of the Group, further details of which are set out in note 30 to the financial statements. The fair value of such options, which has been recognized in the statement of profit or loss over the vesting period and included in the above disclosure, was determined as at the date of grant.

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

Executive directors, non-executive directors, independent non-executive directors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2016					
Executive directors:					
Yan Weibin	206	1,029	376	23	1,634
Lin Jung-Chin	206	–	376	–	582
Bartle van der Meer	206	514	376	–	1,096
Ng Siu Hung	206	722	313	36	1,277
	824	2,265	1,441	59	4,589
Non-executive directors:					
Tsai Chang Hai (appointed on 19 January 2016)	206	–	94	–	300
Zeng Xiaojun (appointed on 19 January 2016)	206	–	94	–	300
	412	–	188	–	600
Independent non-executive directors:					
Ho Mei-Yueh (appointed on 19 January 2016)	206	–	94	–	300
Jason Wan	206	–	94	–	300
Lau Chun Fai Douglas	257	–	94	–	351
	669	–	282	–	951
Total	1,905	2,265	1,911	59	6,140

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

Executive directors, non-executive directors, independent non-executive directors and the chief executive (continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2015				
Executive directors:				
Yan Weibin	145	950	–	1,095
Lin Jung-Chin	145	–	–	145
Bartle van der Meer	145	757	–	902
Ng Siu Hung	145	394	14	553
	580	2,101	14	2,695
Independent non-executive directors:				
Qiu Weifa (resigned on 19 January 2016)	145	–	–	145
Jason Wan	145	–	–	145
Lau Chun Fai Douglas	225	–	–	225
	515	–	–	515
Total	1,095	2,101	14	3,210

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2015: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any director (2015: Nil), details of whose remuneration are set out in note 8 above. Details of the remuneration of the five (2015: five) non-director highest paid employees for the year are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	4,985	7,266
Equity-settled share option expense	7,357	–
Pension scheme contributions	110	592
Total	12,452	7,858

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

	Number of employees	
	2016	2015
HK$1,000,001 to HK$1,500,000	–	1
HK$1,500,001 to HK$2,000,000	–	2
HK$2,000,001 to HK$2,500,000	–	2
HK$2,500,001 to HK$3,000,000	3	–
HK$3,000,001 to HK$3,500,000	1	–
HK$3,500,001 to HK$4,000,000	1	–
Total	5	5

During the year, shared options were granted to the five non-director highest paid employees in respect of their services provided to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such options, which has been recognized in the statement of profit or loss over the vesting period and included in the above disclosures, was determined as at the respective dates of grant.

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 (2015: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Under the PRC income tax laws, enterprises are subject to corporate income tax ("**CIT**") at a rate of 25%. Under the Netherlands income tax laws, enterprises are subject to the Netherlands corporate income tax rate of 20% for the first EUR200,000 taxable profits and 25% for taxable profits exceeding EUR200,000. Under the USA tax laws, enterprises are subject to the USA corporate income tax rate of 34%. Under the Canada tax laws, enterprises are subject to the Canada corporate income tax rate of 26.5%. Under the Australia tax laws, enterprises are subject to the Australia corporate income tax rate of 30%. Under the New Zealand tax laws, enterprises are subject to the New Zealand corporate income tax rate of 28%.

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

	2016 RMB'000	2015 RMB'000
Current charge for the year – Mainland China		
Charge for the year	115,477	46,204
Underprovision in prior years	107	–
Current charge for the year – The Netherlands		
Charge for the year	4,110	7,768
Under/(over)provision in prior years	173	(427)
Deferred income tax (note 27)	(56,111)	(52,865)
Total tax charge for the year	63,756	680

10. INCOME TAX (continued)

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

2016

	Hong Kong		The Netherlands		Mainland China		Canada		USA		Australia		New Zealand		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	(9,633)		31,771		329,241		(4,743)		(10,269)		(14,776)		(278)		(23,561)		297,752	
Income tax at the statutory income tax rate	(1,589)	16.5	7,943	25.0	82,347	25.0	(1,257)	26.5	(3,492)	34.0	(4,433)	30.0	(78)	28.0	–	–	79,441	26.7
Tax effects on preferential tax rates	–	–	–	–	(17,317)	(5.3)	–	–	–	–	–	–	–	–	–	–	(17,317)	(5.8)
Effect on opening deferred tax of decrease in rates	–	–	–	–	–	–	1,437	(30.3)	–	–	–	–	–	–	–	–	1,437	0.5
Non-deductible items and others, net	3,168	(32.9)	138	0.4	3,834	1.2	–	–	–	–	194	(1.3)	–	–	–	–	7,334	2.5
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiary	–	–	–	–	623	0.2	–	–	–	–	–	–	–	–	–	–	623	0.2
Profits attributable to associates	–	–	(1,058)	(3.3)	–	–	–	–	–	–	–	–	–	–	–	–	(1,058)	(0.4)
Additional deduction of expenses	–	–	–	–	(1,807)	(0.5)	–	–	–	–	–	–	–	–	–	–	(1,807)	(0.6)
Tax losses utilised from previous periods	(1,040)	10.8	(2,603)	(8.2)	–	–	–	–	–	–	–	–	–	–	–	–	(3,643)	(1.2)
Tax losses not recognised	339	(3.5)	1,171	3.7	2,092	0.6	–	–	–	–	1,558	(10.6)	61	(21.9)	–	–	5,221	1.7
Income not subject to tax	(918)	9.5	(2,171)	(6.8)	(3,666)	(1.1)	–	–	–	–	–	–	–	–	–	–	(6,755)	(2.3)
Adjustments in respect of current tax in previous periods	–	–	173	0.5	107	–	–	–	–	–	–	–	–	–	–	–	280	0.1
Tax charge at the Group's effective rate	(40)	0.4	3,593	11.3	66,213	20.1	180	(3.8)	(3,492)	34.0	(2,681)	18.1	(17)	6.1	–	–	63,756	21.4

2015

	Hong Kong		The Netherlands		Mainland China		Canada		USA		Others		Total	
	RMB' 000	%	RMB' 000	%	RMB' 000	%	RMB' 000	%	RMB' 000	%	RMB' 000	%	RMB' 000	%
Profit/(loss) before tax	(3,820)		(116,259)		170,364		(5,007)		(27,664)		(13,823)		3,791	
Income tax at the statutory income tax rate	(630)	16.5	(28,453)	24.5	42,591	25.0	(1,903)	38.0	(9,406)	34.0	–	–	2,199	58.0
Tax effects on preferential tax rates	–	–	–	–	(8,509)	(5.0)	–	–	–	–	–	–	(8,509)	(224.5)
Non-deductible items and others, net	2,697	(70.6)	3,498	(3.0)	1,467	0.9	–	–	–	–	–	–	7,662	202.1
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiary	–	–	–	–	892	0.5	–	–	–	–	–	–	892	23.6
Profits attributable to associates	–	–	(2,093)	1.8	–	–	–	–	–	–	–	–	(2,093)	(55.2)
Additional deduction of expenses	–	–	–	–	(836)	(0.5)	–	–	–	–	–	–	(836)	(22.1)
Tax losses not recognised	676	(17.7)	–	–	2,209	1.3	–	–	–	–	–	–	2,885	76.1
Income not subject to tax	(1,093)	28.6	–	–	–	–	–	–	–	–	–	–	(1,093)	(28.8)
Adjustments in respect of current tax in previous periods	–	–	(427)	0.4	–	–	–	–	–	–	–	–	(427)	(11.3)
Tax charge at the Group's effective rate	1,650	(43.2)	(27,475)	23.6	37,814	22.2	(1,903)	38.0	(9,406)	34.0	–	–	680	17.9

The share of tax attributable to associates amounting to RMB1,152,000 (2015: RMB2,093,000) is included in "Share of profits of associates" in the consolidated statement of profit or loss and other comprehensive income.

11. DIVIDENDS

	2016 RMB'000	2015 RMB'000
Proposed final – HK5 cents (2015: HK3 cents) per ordinary share	55,805	33,585

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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 1,247,732,530 (2015: 1,033,178,472) in issue during the year.

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

Earnings

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

Shares

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

13. PROPERTY, PLANT AND EQUIPMENT

	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 2016							
At 31 December 2015 and 1 January 2016:							
Cost	236,902	180,700	7,574	21,157	21,639	231,343	699,315
Accumulated depreciation and impairment	(44,515)	(45,434)	(6,487)	(8,165)	(8,418)	–	(113,019)
Net carrying amount	192,387	135,266	1,087	12,992	13,221	231,343	586,296
At 1 January 2016, net of accumulated depreciation and impairment	192,387	135,266	1,087	12,992	13,221	231,343	586,296
Additions	20,277	25,381	844	15,308	880	185,417	248,107
Acquisition of nutrition business and a subsidiary (note 33)	27,499	3,376	86	479	278	–	31,718
Disposals	(565)	(84)	(96)	(996)	–	–	(1,741)
Depreciation provided during the year	(13,191)	(23,089)	(691)	(4,834)	(2,624)	–	(44,429)
Transfers	9,598	63	–	188	3,381	(16,502)	(3,272)
Exchange realignment	4,175	3,799	–	159	(17)	6,096	14,212
At 31 December 2016, net of accumulated depreciation and impairment	240,180	144,712	1,230	23,296	15,119	406,354	830,891
At 31 December 2016:							
Cost	298,778	212,504	6,467	34,956	26,174	406,354	985,233
Accumulated depreciation and impairment	(58,598)	(67,792)	(5,237)	(11,660)	(11,055)	–	(154,342)
Net carrying amount	240,180	144,712	1,230	23,296	15,119	406,354	830,891

Notes to the Financial Statements

31 December 2016

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	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 2015							
At 1 January 2015:							
Cost	201,422	181,049	5,881	16,337	17,387	137,879	559,955
Accumulated depreciation and impairment	(33,253)	(26,208)	(5,703)	(5,256)	(6,373)	–	(76,793)
Net carrying amount	168,169	154,841	178	11,081	11,014	137,879	483,162
At 1 January 2015, net of accumulated depreciation and impairment	168,169	154,841	178	11,081	11,014	137,879	483,162
Additions	5,640	9,474	1,693	6,040	330	134,063	157,240
Disposals	–	–	–	(162)	(680)	–	(842)
Depreciation provided during the year	(12,128)	(21,722)	(784)	(3,617)	(2,070)	–	(40,321)
Transfers	35,936	–	–	–	4,602	(40,538)	–
Exchange realignment	(5,230)	(7,327)	–	(350)	25	(61)	(12,943)
At 31 December 2015, net of accumulated depreciation and impairment	192,387	135,266	1,087	12,992	13,221	231,343	586,296
At 31 December 2015:							
Cost	236,902	180,700	7,574	21,157	21,639	231,343	699,315
Accumulated depreciation and impairment	(44,515)	(45,434)	(6,487)	(8,165)	(8,418)	–	(113,019)
Net carrying amount	192,387	135,266	1,087	12,992	13,221	231,343	586,296

The net carrying amount of the Group's fixed assets held under finance leases included in the total amount of machinery at 31 December 2016 was EUR2,051,000 (equivalent to approximately RMB14,986,000) (2015: EUR2,590,000, equivalent to approximately RMB18,377,000).

13. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2016, certain of the Group's land and buildings, plant and equipment and construction in progress that were attributed to the Ausnutria Hyproca Group and located in the Netherlands with net carrying amounts of EUR19,892,000 (equivalent to approximately RMB145,347,000) (2015: EUR14,507,000, equivalent to approximately RMB102,932,000) and EUR49,733,000 (equivalent to approximately RMB363,389,000) (2015: EUR23,971,000, equivalent to approximately RMB170,079,000), respectively, were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 25(b)).

The Group's land included in property, plant and equipment with a net carrying amount of EUR7,354,000 (equivalent to approximately RMB53,668,000) (2015: EUR7,354,000, equivalent to approximately RMB52,176,000), AUD1,990,000 (equivalent to approximately RMB9,981,000) (2015: Nil) and NZD3,000,000 (equivalent to approximately RMB14,492,000) (2015: Nil) are situated in the Netherlands, Australia and New Zealand, respectively, are held as freehold land.

14. PREPAID LAND LEASE PAYMENTS

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	2,028	2,085
Acquisition of a subsidiary (note 33)	27,985	–
Amortised during the year	(357)	(57)
Carrying amount at 31 December	29,656	2,028
Current portion included in prepayments, deposits and other receivables	(848)	(57)
Non-current portion	28,808	1,971

15. GOODWILL

	Total RMB'000
At 1 January 2015:	
Cost	75,713
Accumulated impairment	–
Net carrying amount	75,713
Cost at 1 January 2015, net of accumulated impairment	75,713
Exchange realignment	(3,660)
At 31 December 2015	72,053
At 31 December 2015:	
Cost	72,053
Accumulated impairment	–
Net carrying amount	72,053
Cost at 1 January 2016, net of accumulated impairment	72,053
Acquisition of Nutrition Business (note 33)	61,798
Exchange realignment	1,218
Cost and net carrying amount at 31 December 2016	135,069
At 31 December 2016:	
Cost	135,069
Accumulated impairment	–
Net carrying amount	135,069

15. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the product cash-generating unit for impairment testing:

- Ausnutria Hyproca cash-generating unit; and
- Nutrition Business cash-generating unit.

Ausnutria Hyproca cash-generating unit

The recoverable amount of the Ausnutria Hyproca 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% (2015: 12%). The growth rates used to extrapolate the cash flows of the product cash-generating unit beyond the five-year period are at 3% (2015: 3%-5%).

Nutrition Business cash-generating unit

The recoverable amount of the Nutrition Business 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 18.56%. The growth rates used to extrapolate the cash flows of the product cash-generating unit beyond the five-year period are at 2%.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Ausnutria Hyproca		Nutrition Business		Total	
	2016	2015	**2016**	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Carrying amount of goodwill	**74,202**	72,053	**60,867**	–	**135,069**	72,053

15. GOODWILL (continued)

Impairment testing of goodwill (continued)

Assumptions were used in the value in use calculation of the Ausnutria Hyproca and Nutrition Business cash-generating units for 31 December 2016 and 31 December 2015. 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 rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on market development of Ausnutria Hyproca and Nutrition Business, and discount rates are consistent with external information sources.

16. OTHER INTANGIBLE ASSETS

	Non-patent technology RMB'000	Trademarks RMB'000	Software RMB'000	Milk collection right RMB'000	Others RMB'000	Total RMB'000
31 December 2016						
Cost at 1 January 2016, net of accumulated amortisation	9,002	1,060	15,332	18,824	1,461	45,679
Additions	21,816	–	14,119	–	95	36,030
Acquisition of Nutrition Business (note 33)	34,944	41,936	–	–	–	76,880
Disposals	–	–	(945)	–	–	(945)
Transfers from property, plant and equipment	–	–	3,624	–	(352)	3,272
Amortisation provided during the year	(1,018)	(1,622)	(3,460)	(3,707)	(354)	(10,161)
Exchange realignment	(279)	(595)	141	580	46	(107)
At 31 December 2016	64,465	40,779	28,811	15,697	896	150,648
At 31 December 2016:						
Cost	66,614	43,481	44,207	31,692	1,862	187,856
Accumulated amortisation	(2,149)	(2,702)	(15,396)	(15,995)	(966)	(37,208)
Net carrying amount	64,465	40,779	28,811	15,697	896	150,648

16. OTHER INTANGIBLE ASSETS (continued)

	Non-patent technology RMB'000	Trademarks RMB'000	Software RMB'000	Milk collection right RMB'000	Others RMB'000	Total RMB'000
31 December 2015						
Cost at 1 January 2015, net of accumulated amortisation	5,178	1,132	13,048	23,497	1,642	44,497
Additions	4,087	435	3,365	–	235	8,122
Disposals	(29)	–	(340)	–	(91)	(460)
Amortisation provided during the year	(98)	(478)	(457)	(3,442)	(242)	(4,717)
Exchange realignment	(136)	(29)	(284)	(1,231)	(83)	(1,763)
At 31 December 2015	9,002	1,060	15,332	18,824	1,461	45,679
At 31 December 2015:						
Cost	10,130	2,138	27,083	30,775	2,055	72,181
Accumulated amortisation	(1,128)	(1,078)	(11,751)	(11,951)	(594)	(26,502)
Net carrying amount	9,002	1,060	15,332	18,824	1,461	45,679

17. INVESTMENTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Share of net assets	45,858	26,248
Goodwill on acquisition	6,245	6,064
	52,103	32,312

The Group's trade receivable and payable balances with the associates are disclosed in notes 19 and 22 to the financial statements, respectively.

17. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2016 RMB'000	2015 RMB'000
Share of the associates' profit for the year	4,233	7,019
Share of the associates' total comprehensive income	4,233	7,019
Aggregate carrying amounts of the Group's investments in the associates	52,103	32,312

18. INVENTORIES

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

At 31 December 2016, certain of the Group's inventories that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR63,841,000 (equivalent to approximately RMB466,473,000) (2015: EUR55,063,000, equivalent to approximately RMB390,683,000) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 25(b)).

19. TRADE AND BILLS RECEIVABLES

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

19. TRADE AND BILLS RECEIVABLES (continued)

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

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

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

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

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

The ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	153,282	136,246
Within 3 months past due	4,725	7,558
3 months to 1 year past due	3,936	1,748
Total	161,943	145,552

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.

19. TRADE AND BILLS RECEIVABLES (continued)

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 2016, certain of the Group's trade receivables that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR13,305,000 (equivalent to approximately RMB97,217,000) (2015: EUR17,896,000, equivalent to approximately RMB126,976,000) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 25(b)).

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Prepayments and deposits paid	112,226	51,870
Insurance claims	–	6,095
Interest income receivable	28,429	16,822
Other tax recoverable	20,559	20,661
Others	68,620	68,649
	229,834	164,097
Less: Non-current portion of:		
Deposit paid for the purchase of a plot of land in the PRC	(35,000)	–
	194,834	164,097

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.

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

	2016 RMB'000	2015 RMB'000
Cash and bank balances	448,262	307,620
Time deposits	876,697	955,728
	1,324,959	1,263,348
Less: Pledged deposits (Note 25(b)(v))	(778,427)	(769,738)
Non-pledged time deposits with maturity of between 3 months to 12 months	(98,270)	(185,990)
Cash and cash equivalents	448,262	307,620

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB312,225,000 (2015: RMB186,210,000). In addition, all the time deposits of the Group were denominated in RMB. 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.

22. TRADE PAYABLES

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

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

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

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

23. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Advances from customers	206,969	151,562
Deferred income	171,638	115,975
Deposits	12,999	12,686
Accrued salaries and welfare	69,871	42,478
Other tax payables	20,512	11,749
Sales commission payables	10,737	3,939
Other payables	113,262	46,960
Accrued promotion and advertising expenses	107,996	44,799
Other accruals	83,023	45,678
	797,007	475,826

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

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2016 RMB'000	2015 RMB'000
Interest rate swaps entered into by the Ausnutria Hyproca Group	2,482	1,943

The Ausnutria Hyproca Group has entered into various interest rate swap contracts to manage its interest rate exposures. These interest rate swaps are measured at fair value through profit or loss. A net fair value loss on these interest rate swaps amounting to RMB483,000 (2015: loss of RMB1,516,000) and a net exchange loss amounting to RMB56,000 (2015: loss of RMB23,000) were recognised in profit or loss for the year ended 31 December 2016.

25. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

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

	2016			2015		
	Annual effective interest rate (%)	Maturity	RMB'000	Annual effective interest rate (%)	Maturity	RMB'000
Current						
Finance lease payables (note 28)	3.0-4.56	2017	4,104	3.0-4.56	2016	3,829
Bank overdrafts – secured	1 month EURIBOR+1.8	2017	135,350	1 month EURIBOR+1.8	2016	56,655
Bank overdrafts – secured	3 month EURIBOR+2.35	2017	31,276	–	–	–
Bank loan – secured	3 month LIBOR+0.8-1.55	2017	368,993	3 month LIBOR+1.0-2.2	2016	437,561
Bank loan – secured	–	–	–	3 month HIBOR+1.7	2016	92,156
Bank loan – secured	–	–	–	12 month HIBOR+1.7	2016	112,598
Bank loan – secured	1.0 – 5.0	2017	194,820	–	–	–
Current portion of long-term bank loans – secured	3 month EURIBOR+2.35	2017	23,690	3 month EURIBOR+2.35	2016	18,747
Other loans – unsecured*	3 month EURIBOR+3.0	2017	3,222	–	–	–
Other loans – unsecured	–	–	–	2.0	2016	35,447
			761,455			756,993
Non-current						
Finance lease payables (note 28)	3.0-4.56	2018-2020	10,880	3.0-4.56	2017-2020	14,549
Bank loans – secured	3 month EURIBOR+2.35	2020	191,845	–	–	–
Bank loans – secured	3 month LIBOR+2.25	2019	131,521	3 month EURIBOR+2.35	2017-2020	170,979
Bank loans – secured	3 month EURIBOR+1.2	2018	116,909	–	–	–
Other loans – unsecured*	–	–	–	6.0	2017-2018	519
Other loans – unsecured*	–	–	–	3 month EURIBOR+3.0	2017	3,129
			451,155			189,176
			1,212,610			946,169

* Loans from non-controlling shareholders of subsidiaries.

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

	2016 RMB'000	2015 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	754,129	717,717
In the second year	116,909	37,495
In the third to fifth years, inclusive	323,366	133,484
	1,194,404	888,696
Other borrowings repayable:		
Within one year or on demand	7,326	39,276
In the second year	4,271	7,114
In the third to fifth years, inclusive	6,609	10,651
After five years	–	432
	18,206	57,473
	1,212,610	946,169

Notes:

(a) The Group's bank overdraft facilities that were attributed to the Ausnutria Hyproca Group amounting to EUR30,000,000 (equivalent to approximately RMB219,204,000) (2015: EUR20,000,000, equivalent to approximately RMB141,904,000), of which EUR22,804,000 (equivalent to approximately RMB166,626,000) (2015: EUR7,985,000, equivalent to approximately RMB56,655,000) had been utilised as at 31 December 2016.

(b) Certain of the 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 EUR19,892,000 (equivalent to approximately RMB145,347,000) (2015: EUR14,507,000 (equivalent to approximately RMB102,932,000));

(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 EUR49,733,000 (equivalent to approximately RMB363,389,000) (2015: EUR23,971,000 (equivalent to approximately RMB170,079,000));

(iii) pledges of the Ausnutria Hyproca Group's inventories, which had an aggregate carrying value at the end of the reporting period of EUR63,841,000 (equivalent to approximately RMB466,473,000) (2015: EUR55,063,000 (equivalent to approximately RMB390,683,000));

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

Notes: (continued)

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

(iv) pledges of the Ausnutria Hyproca Group's trade receivables, which had an aggregate carrying value at the end of the reporting period of EUR13,305,000 (equivalent to approximately RMB97,217,000) (2015: EUR17,896,000 (equivalent to approximately RMB126,976,000)); and

(v) pledges of certain of the Group's time deposits amounting to RMB778,427,000 (2015: RMB769,738,000).

(c) Except for two bank loans of a total of RMB48,684,000 which are denominated in Renminbi (2015: bank loans of a total of HK$244,400,000 were denominated in HK$ (equivalent to approximately RMB204,753,000)) all borrowings are denominated in Euro.

26. 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 67 (2015: age of 67).

The employees who participate in this defined benefit plan moved to another pension plan which was treated as defined contribution plan as from 1 January 2016. All rights from previous years will remain in the old defined benefit plan. Sensitivity on future salary and pension costs is not applicable for the Group's defined benefit plan.

The Group's defined benefit plan is a final salary plan, which requires contributions to be made to a separately administered fund. The plan has the legal form of a foundation and it is administrated by independent trustees with the assets held separately from those of the Group. The trustees are responsible for the determination of the investment strategy of the plan.

The trustees review the level of funding in the plan by the end of each reporting period. Such a review includes the asset-liability matching strategy and investment risk management policy. The trustees decide the amount of contribution based on the results of the annual review.

The plan is exposed to interest rate risk, the risk of changes in the life expectancy for pensioners and equity market risk.

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out on 31 December 2016 by the appraiser, using the projected unit credit actuarial valuation method.

26. DEFINED BENEFIT PLAN (continued)

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

	2016	2015
Discount rate (%)	2.00	2.50
Expected rate of future pension cost increases (%)	2.00	2.00
Expected rate of salary increases (%)	0.00	2.50
Indexation post activities	0.00	1.50

The actuarial valuation showed that the market value of plan assets was RMB25,640,000 (2015: RMB25,266,000) and that the actuarial value of these assets represented 80.7% (2015: 66.2%) of the benefits that had accrued to qualifying employees. The deficiency of RMB6,138,000 (2015: RMB12,885,000) is expected to be cleared over the remaining life expectancy (based on unconditional future indexations for active and post-active participants).

A quantitative sensitivity analysis for significant assumptions as at the end of the reporting period is shown below:

	Increase in rate %	Increase/ (decrease) in defined benefit obligations RMB'000	Decrease in rate %	Increase/ (decrease) in defined benefit obligations RMB'000
2016				
Discount rate	0.25	(1,651)	0.25	1,797

	Increase in rate %	Increase/ (decrease) in defined benefit obligations RMB'000	Decrease in rate %	Increase/ (decrease) in defined benefit obligations RMB'000
2015				
Discount rate	0.25	(2,051)	0.25	2,221

26. DEFINED BENEFIT PLAN (continued)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligations as it is unlikely that changes in assumptions would occur in isolation of one another.

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

	2016 RMB'000	2015 RMB'000
Current service cost	22	21
Interest cost	1,087	276
Net benefit expenses	1,109	297
Recognised in cost of sales	1,109	297
Recognised in administrative expenses	–	–
	1,109	297

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

	2016 RMB'000	2015 RMB'000
At 1 January	38,151	45,725
Current service cost	22	21
Interest cost	(6,879)	(4,688)
Benefit paid	(690)	(552)
Exchange differences on a foreign plan	1,174	(2,355)
At 31 December	31,778	38,151

26. DEFINED BENEFIT PLAN (continued)

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2016

		Pension cost charged to profit or loss				Remeasurement gains/(losses) in other comprehensive income							
	1 January 2016 RMB'000	Service cost RMB'000	Net interest expense RMB'000	Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Return on plan assets (excluding amounts included in net interest expense) RMB'000	Actuarial changes arising from changes in demographic assumptions RMB'000	Actuarial changes arising from changes in financial assumptions RMB'000	Experience adjustments RMB'000	Sub-total included in other comprehensive income RMB'000	Contribution by employer RMB'000	Foreign exchange difference RMB'000	31 December 2016 RMB'000
Defined benefit obligations	(38,151)	(22)	(984)	(1,006)	690	–	(22)	2,445	5,440	7,863	–	(1,174)	(31,778)
Fair value of plan assets	25,266	–	646	646	–	–	7	2,526	(3,561)	(1,028)	690	66	25,640
Benefit liability	(12,885)	(22)	(338)	(360)	690	–	(15)	4,971	1,879	6,835	690	(1,108)	(6,138)

2015

		Pension cost charged to profit or loss				Remeasurement gains/(losses) in other comprehensive income							
	1 January 2015 RMB'000	Service cost RMB'000	Net interest expense RMB'000	Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Return on plan assets (excluding amounts included in net interest expense) RMB'000	Actuarial changes arising from changes in demographic assumptions RMB'000	Actuarial changes arising from changes in financial assumptions RMB'000	Experience adjustments RMB'000	Sub-total included in other comprehensive income RMB'000	Contribution by employer RMB'000	Foreign exchange difference RMB'000	31 December 2015 RMB'000
Defined benefit obligations	(45,725)	(21)	(801)	(822)	552	–	–	5,489	–	5,489	–	2,355	(38,151)
Fair value of plan assets	30,016	–	525	525	(552)	(3,183)	–	–	–	(3,183)	–	(1,540)	25,266
Benefit liability	(15,709)	(21)	(276)	(297)	–	(3,183)	–	5,489	–	2,306	–	815	(12,885)

The fair value of the total plan assets at 31 December 2016 was RMB25,640,000 (2015: RMB25,266,000).

Expected contributions to the defined benefit plan in future years are as follows:

	2016 RMB'000	2015 RMB'000
Within the next 12 months	431	504
Between 2 and 5 years	2,236	1,540
Between 5 and 10 years	3,821	3,285
Total expected contributions	6,488	5,329

The average duration of the defined benefit obligations at the end of the reporting period was 23.3 (2015: 17.4) years.

27. DEFERRED TAX

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

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Milk collection right RMB'000	Withholding taxes RMB'000	Total RMB'000
31 December 2016					
At 1 January 2016	3,628	6,961	2,861	13,141	26,591
Acquisition of a subsidiary (note 33)	–	23,064	–	–	23,064
Deferred tax charged/(credited) to profit or loss during the year (note 10)	(1,073)	(560)	(586)	623	(1,596)
Exchange difference	113	(148)	89	–	54
Gross deferred tax liabilities at 31 December 2016	2,668	29,317	2,364	13,764	48,113

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Milk collection right RMB'000	Withholding taxes RMB'000	Total RMB'000
31 December 2015					
At 1 January 2015	4,347	8,873	3,601	12,249	29,070
Deferred tax charged/(credited) to profit or loss during the year (note 10)	(495)	(1,443)	(551)	892	(1,597)
Exchange difference	(224)	(469)	(189)	–	(882)
Gross deferred tax liabilities at 31 December 2015	3,628	6,961	2,861	13,141	26,591

27. DEFERRED TAX (continued)

Deferred tax assets

2016

	Defined benefit plan RMB'000	Losses available for offsetting against future taxable income RMB'000	Provision against inventories RMB'000	Deductible temporary differences RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
31 December 2016							
At 1 January 2016	3,092	54,425	238	19,122	21,491	426	98,794
Acquisition of a nutrition business (note 33)	–	702	–	–	–	–	702
Deferred tax credited to profit or loss during the year (note 10)	86	9,251	234	26,268	13,450	5,226	54,515
Deferred tax charged to equity during the year	(1,640)	–	–	–	–	–	(1,640)
Exchange difference	100	1,602	–	–	–	12	1,714
Gross deferred tax assets at 31 December 2016	1,638	65,980	472	45,390	34,941	5,664	154,085

2015

	Defined benefit plan RMB'000	Losses available for offsetting against future taxable income RMB'000	Provision against inventories RMB'000	Deductible temporary differences RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
31 December 2015							
At 1 January 2015	3,770	10,117	1,486	13,861	17,872	416	47,522
Deferred tax credited/(charged) to profit or loss during the year (note 10)	71	43,535	(1,248)	5,261	3,619	30	51,268
Deferred tax charged to equity during the year	(553)	–	–	–	–	–	(553)
Exchange difference	(196)	773	–	–	–	(20)	557
Gross deferred tax assets at 31 December 2015	3,092	54,425	238	19,122	21,491	426	98,794

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

27. DEFERRED TAX (continued)

Deferred tax assets (continued)

The Group has tax losses arising in Hong Kong of RMB11,224,000 (2015: RMB8,103,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of RMB17,202,000 (2015: RMB8,834,000) that will expire in one to five years for offsetting against future taxable profits. 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 effective on 1 January 2008, 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 subsidiary established in Mainland China in respect of earnings generated from January 2008. The applicable rate for the Group is 10% (2015: 10%).

As at 31 December 2016, the Group has not recognised deferred tax liabilities of RMB68,848,000 (2015: RMB53,315,000) in respect of temporary differences relating to the unremitted earnings of subsidiaries, amounting to RMB688,482,000 (2015: RMB533,154,000), 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.

28. FINANCE LEASE PAYABLES

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

At 31 December 2016, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 2016 RMB'000	Minimum lease payments 2015 RMB'000	Present value of minimum lease payments 2016 RMB'000	Present value of minimum lease payments 2015 RMB'000
Amounts payable:				
Within one year	4,609	4,476	4,104	3,829
In the second year	4,609	4,476	4,271	3,985
In the third to fifth years, inclusive	6,826	10,671	6,609	10,132
After five years	–	432	–	432
Total minimum finance lease payments	16,044	20,055	14,984	18,378
Future finance charges	(1,060)	(1,677)		
Total net finance lease payables	14,984	18,378		
Portion classified as current liabilities (note 25)	(4,104)	(3,829)		
Non-current portion (note 25)	10,880	14,549		

29. SHARE CAPITAL

Shares

	2016 HK$'000	2015 HK$'000
Issued and fully paid:		
1,247,732,530 (2015:1,247,732,530) ordinary shares	124,773	124,773

29. SHARE CAPITAL (continued)

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000
At 1 January 2015	986,843,000	86,866
Acquisition of non-controlling interests (a)	147,459,300	12,114
Issue of shares (b)	113,430,230	9,475
At 31 December 2015, 1 January 2016 and 31 December 2016	1,247,732,530	108,455

Notes:

(a) On 12 January 2015, the Group entered into a share purchase agreement (as supplemented by the supplemental share purchase agreement and the letter of exchange dated 28 May 2015 and 31 July 2015, respectively) with DDI for the acquisition of the residual 49.0% equity interest in Ausnutria Hyproca at a consideration of approximately HK$470.3 million (the "**Ausnutria Hyproca Acquisition**"). The consideration was settled by HK$100,193,398 in cash and by the issuance of 147,459,300 Shares. Details of the Ausnutria Hyproca Acquisition are set out in the circular of the Company dated 30 June 2015. The Ausnutria Hyproca Acquisition was approved by the Shareholders at the extraordinary general meeting of the Company on 20 July 2015 and completed on 15 September 2015.

(b) On 28 October 2015, the Company proposed to raise approximately HK$249.55 million (equivalent to approximately RMB208.4 million) (before expenses) by way of an open offer (the "**Open Offer**") involving the issue of 113,430,230 offer shares at the subscription price of HK$2.20 per offer share (the "**Offer Shares**") on the basis of one Offer Share for every ten existing Shares held by the qualifying Shareholders. The Open Offer was fully underwritten by Center Laboratories, Inc. ("**Center Lab**") on the terms and conditions as set out in the underwriting agreement dated 28 October 2015 entered into between the Company and Center Lab at nil consideration. The dealing of the Offer Shares commenced on 22 December 2015.

30. SHARE OPTION SCHEME

The Group operates a share option scheme (the "**Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme are the directors, and any person belonging to any of the following classes of participants:

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

ii. any supplier of goods or services to the Group or any of subsidiaries of any Invested Entity;

iii. any customer of the Group or any Invested Entity;

30. SHARE OPTION SCHEME (continued)

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

v. any shareholder of the Group or any of subsidiaries or any Invested Entity or any holder of any securities issued by the Group or any of subsidiaries or any Invested Entity.

The Scheme became effective on 19 September 2009 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Group in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Group in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Group are subject to approval in advance by the directors (excluding any independent non-executive directors who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Group in excess of 0.1% of the shares of the Group in issue at any time or with an aggregate value (based on the price of the Group's shares at the date of grant), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a vesting period which is not later than ten years from the date of offer of the share options or the expiry date of the Scheme, if earlier.

The following share options were outstanding under the Scheme during the year:

	2016		2015	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	–	–	–	–
Granted during the year	2.45	46,815	–	–
Forfeited during the year	2.45	(200)	–	–
At 31 December	2.45	46,615	–	–

No share options were exercised for during the year.

30. SHARE OPTION SCHEME (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2016

Number of options '000	Exercise price HK$ per share	Exercise period
34,600	2.45	20-1-16 to 20-1-21
12,015	2.45	06-7-16 to 20-1-21
46,615		

The fair value of the share options granted during the year was HK$27,477,000 (HK$0.59 each) (2015: N/A), of which the Group recognised a share option expense of HK$14,061,000 (equivalent to approximately RMB11,793,000) (2015: Nil) during the year ended 31 December 2016.

The fair value at grant date is estimated using a binomial tree model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is five years. There is no cash settlement of the options. The fair value of options granted during year was estimated on the date of grant using the following assumptions:

Dividend yield (%)	0.00
Expected volatility (%)	47.45 – 49.09
Risk-free interest rate (%)	1.36 – 1.6
Expected life of share options (year)	5
Weighted average share price (HK$)	2.45

At the end of the reporting period, the Company had 46,615,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 46,615,000 additional ordinary shares of the Company and additional share capital of HK$4,661,500 (before issue expenses).

At the date of approval of these financial statements, the Company had 46,615,000 share options outstanding under the Scheme, which represented approximately 3.7% of the Company's shares in issue as at that date.

31. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 83 to 84 of the financial statements.

(i) Capital reserve

Capital reserve represents the net difference of the aggregate issued paid-in capital of subsidiaries comprising the Group in 2009 and contribution from the then owners of certain property, plant and equipment and a lease prepayment for land use rights at nil consideration in 2007 and after offsetting the effect arising from the acquisition of the remaining 49% equity interest in Ausnutria Hyproca in 2015.

(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 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 PRC subsidiaries, provided that such fund is maintained at a minimum level of 25% of the registered capital.

32. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2016	2015
Percentage of equity interest held by non-controlling interests:		
HNC	15%	15%
NCP	25%	–
PNL	40%	–

	2016 RMB'000	2015 RMB'000
Profit/(loss) for the year allocated to non-controlling interests:		
HNC	16,023	10,438
NCP	(1,725)	–
PNL	(17)	–
Accumulated balances of non-controlling interests at the reporting date:		
HNC	25,709	12,686
NCP	35,867	–
PNL	14,475	–

32. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (continued)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

	2016			2015
	HNC	NCP	PNL	HNC
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	663,481	10,834	–	461,043
Total expenses	(556,663)	(17,735)	(43)	(391,457)
Profit for the year	106,818	(6,901)	(43)	69,586
Total comprehensive income for the year	106,818	(6,901)	(43)	69,586
Current assets	446,132	36,243	14,064	250,378
Non-current assets	43,482	167,860	37,997	22,012
Current liabilities	(316,195)	(12,195)	(15,874)	(186,412)
Non-current liabilities	(2,025)	(48,439)	–	(1,402)
Net cash flows from/(used in) operating activities	157,651	(9,335)	44	128,268
Net cash flows used in investing activities	(33,243)	–	(22,993)	(20,428)
Net cash flows from financing activities	–	25,085	36,183	–
Net increase in cash and cash equivalents	124,408	15,750	13,234	107,840

33. BUSINESS COMBINATION

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

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

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

	Notes	Fair value recognised on acquisition RMB'000
Inventories		15,185
Other receivables		823
Property, plant and equipment	13	31,718
Intangible assets	16	76,880
Prepaid land lease payments	14	27,985
Deferred tax assets	27	702
Trade and other payables		(2,341)
Deferred tax liabilities	27	(23,064)
Total identifiable net assets at fair value		127,888
Goodwill on acquisition	15	61,798
Satisfied by cash		189,686

33. BUSINESS COMBINATION (continued)

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

An analysis of the cash flows in respect of the acquisition of nutrition business and Hunan Mornring are as follows:

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

34. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (2015: Nil).

35. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, which are secured by the assets of the Group, are included in notes 13,18,19,21 and 25, respectively, to the financial statements.

36. 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:

	2016 RMB'000	2015 RMB'000
Within one year	8,048	4,981
In the second to fifth years, inclusive	10,825	11,289
After five years	198	–
	19,071	16,270

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the end of the reporting period:

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for:		
Plant and machinery	335,512	172,859
Buildings	125,820	–
	461,332	172,859

38. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed in Note 29(a) and (b) and elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:

	Notes	2016 RMB'000	2015 RMB'000
Purchases of products from the associates	(i)	**160,980**	184,878
Sales of products to the associates	(i)	**36,416**	31,872
Management fees received from the associates	(ii)	**1,046**	215
Management fees paid to BioEngine Technology Development Inc. ("**BioEngine Tech**")	(iii)	**1,920**	1,920

Notes:

(i) These transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved.

(ii) The management fees were charged based on the management time incurred by the management of the Ausnutria Hyproca Group for the associates.

(iii) BioEngine Tech is a subsidiary of Center Lab. The management fees were charged based on the actual costs incurred by the management of BioEngine Tech to the Company.

(b) Outstanding balances with related parties:

Details of the trade balances with the associates as at the end of the reporting period are disclosed in notes 19 and 22 to the financial statements.

(c) Compensation of key management personnel of the Group

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	**21,422**	15,239
Retirement benefit contributions	**904**	888
Equity-settled share option expense	**10,861**	–
Total compensation paid to key management personnel	**33,187**	16,127

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

39. 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:

2016

Financial assets

	Loans and receivables RMB'000
Trade and bills receivables	216,990
Financial assets included in prepayments, deposits and other receivables	28,429
Pledged deposits	778,427
Time deposits	98,270
Cash and cash equivalents	448,262
	1,570,378

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	151,934	151,934
Financial liabilities included in other payables and accruals	–	135,795	135,795
Derivative financial instruments	2,482	–	2,482
Interest-bearing bank loans and other borrowings	–	1,212,610	1,212,610
	2,482	1,500,339	1,502,821

39. 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)

2015

Financial assets

	Loans and receivables RMB'000
Trade and bills receivables	185,396
Financial assets included in prepayments, deposits and other receivables	22,917
Pledged deposits	769,738
Time deposits	185,990
Cash and cash equivalents	307,620
	1,471,661

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	172,692	172,692
Financial liabilities included in other payables and accruals	–	70,181	70,181
Derivative financial instruments	1,943	–	1,943
Interest-bearing bank loans and other borrowings	–	946,169	946,169
	1,943	1,189,042	1,190,985

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, time deposits, the current portion of pledged deposits, trade and bills receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and amounts due to associates, approximate to their carrying amounts largely due to the short term maturities of these instruments.

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2016	2015	**2016**	2015
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities				
Derivative financial instruments	**2,482**	1,943	**2,482**	1,943
Interest-bearing bank loans and other borrowings	**1,212,610**	946,169	**1,203,007**	935,602
	1,215,092	948,112	**1,205,489**	937,545

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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.

The following methods and assumptions were used to estimate the fair values:

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2016 was assessed to be insignificant.

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The Group enters into derivative financial instruments with various financial institutions such as ABN AMRO Bank N.V. and Rabobank. Derivative financial instruments, including interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models measured, using present value calculation. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of interest rate swaps are the same as their fair values.

As at 31 December 2016, the marked to market value of the derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Liabilities measured at fair value:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	2,482	–	2,482

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value: (continued)

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	1,943	–	1,943

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial liabilities (2015: Nil).

41. 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 cash equivalents 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.

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

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2016		
EUR	100	(7,636)
EUR	(100)	7,636
HK$	100	(3,671)
HK$	(100)	3,671
AUD	100	(1,938)
AUD	(100)	1,938
NZD	100	(13)
NZD	(100)	13
2015		
EUR	100	(6,536)
EUR	(100)	6,536
HK$	100	(3,762)
HK$	(100)	3,762

41. 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, Hong Kong, Australia and New Zealand in currencies other than the Group's functional currency (i.e., RMB). In addition, the Group's certain bank balances are denominated in HK$, EUR, AUD and NZD, and certain revenue and expenses of subsidiaries of the Group are denominated in HK$, EUR, AUD and NZD.

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 and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade 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 19 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.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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:

	2016					
	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	–	148,655	2,492	787	–	151,934
Finance lease payables	–	–	4,609	11,435	–	16,044
Financial liabilities included in other payables and accruals	108,019	73,831	866	–	–	182,716
Derivative financial instruments	–	2,482	–	–	–	2,482
Interest-bearing bank loans and other borrowings	135,350	–	634,702	471,428	–	1,241,480
Total	243,369	224,968	642,669	483,650	–	1,594,656

	2015					
	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	29	170,577	621	1,465	–	172,692
Finance lease payables	–	–	4,476	15,147	432	20,055
Financial liabilities included in other payables and accruals	27,682	42,499	–	–	–	70,181
Derivative financial instruments	–	1,943	–	–	–	1,943
Interest-bearing bank loans and other borrowings	56,656	–	702,729	192,767	–	952,152
Total	84,367	215,019	707,826	209,379	432	1,217,023

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2016 and 31 December 2015.

The Group monitors capital using a gearing ratio, which is net debt divided by total assets. Net debt is calculated as the sum of interest-bearing bank loans and other borrowings, less pledged deposits, time deposits and cash and cash equivalents. The gearing ratios as at the end of the reporting periods were as follows:

	2016 RMB'000	2015 RMB'000
Interest-bearing bank loans and other borrowings	1,212,610	946,169
Less: Pledged deposits	(778,427)	(769,738)
Time deposits	(98,270)	(185,990)
Cash and cash equivalents	(448,262)	(307,620)
Net debt/(surplus cash)	(112,349)	(317,179)
Total assets	3,923,646	3,030,522
Gearing ratio	N/A	N/A

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	171,320	171,320
Total non-current assets	171,320	171,320
CURRENT ASSETS		
Due from subsidiaries	984,033	907,024
Prepayments, deposits and other receivables	1,902	482
Cash and cash equivalents	3,364	69,307
Total current assets	989,299	976,813
CURRENT LIABILITIES		
Due to subsidiaries	26,552	30,104
Other payables	3,224	1,952
Total current liabilities	29,776	32,056
NET CURRENT ASSETS	959,523	944,757
TOTAL ASSETS LESS CURRENT LIABILITIES	1,130,843	1,116,077
Net assets	1,130,843	1,116,077
EQUITY		
Issued capital	108,455	108,455
Reserves	1,022,388	1,007,622
Total equity	1,130,843	1,116,077

Mr. Yan Weibin
Director

Mr. Bartle van der Meer
Director

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the company's reserves is as follows:

	Share premium RMB'000	Capital reserve* RMB'000	Share Option RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 1 January 2015	456,267	171,320	–	(58,290)	(69,874)	499,423
Total comprehensive loss for the year	–	–	–	(12,467)	31,774	19,307
Issues of shares	196,950	–	–	–	–	196,950
Acquisition of non-controlling interests	291,942	–	–	–	–	291,942
At 31 December 2015 and 1 January 2016	945,159	171,320	–	(70,757)	(38,100)	1,007,622
Total comprehensive loss for the year	–	–	–	(27,136)	63,694	36,558
Equity-settled share option arrangements	–	–	11,793	–	–	11,793
Final 2015 dividend declared	(33,585)	–	–	–	–	(33,585)
At 31 December 2016	911,574	171,320	11,793	(97,893)	25,594	1,022,388

* 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.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 March 2017.

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, is set out below.

	Year ended 31 December				
	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
RESULTS					
REVENUE	**2,740,262**	2,103,534	1,966,047	1,687,781	1,350,996
Cost of sales	**(1,615,403)**	(1,513,568)	(1,398,842)	(1,216,026)	(1,024,803)
Gross profit	**1,124,859**	589,966	567,205	471,755	326,193
Other income and gains	**62,631**	45,652	29,325	25,884	22,222
Selling and distribution expenses	**(646,411)**	(497,613)	(336,000)	(227,757)	(156,355)
Administrative expenses	**(215,656)**	(116,281)	(105,285)	(84,742)	(74,533)
Other expenses	**(14,055)**	(8,907)	(11,621)	(20,939)	(27,807)
Finance costs	**(17,849)**	(16,045)	(10,310)	(6,406)	(4,315)
Share of profits of associates	**4,233**	7,019	3,959	–	–
PROFIT BEFORE TAX	**297,752**	3,791	137,273	157,795	85,405
Income tax expense	**(63,756)**	(680)	(20,552)	(30,930)	(17,388)
PROFIT FOR THE YEAR	**233,996**	3,111	116,721	126,865	68,017
Attributable to:					
Owners of the parent	**212,672**	50,645	90,219	120,705	66,490
Non-controlling interests	**21,324**	(47,534)	26,502	6,160	1,527
	233,996	3,111	116,721	126,865	68,017

Five Year Financial Summary

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	**3,923,646**	3,030,522	2,433,267	2,002,701	1,588,363
Total liabilities	**(2,333,995)**	(1,702,979)	(1,218,339)	(808,235)	(524,536)
Net assets	**1,589,651**	1,327,543	1,214,928	1,194,466	1,063,827
Non-controlling interests	**(121,582)**	(14,864)	(107,168)	(84,656)	(76,295)
	1,468,069	1,312,679	1,107,760	1,109,810	987,532