澳优·海普诺凯
Ausnutria

AUSNUTRIA DAIRY CORPORATION LTD
澳 優 乳 業 股 份 有 限 公 司

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

Annual Report 2013

Contents

Chairman's Statement

TO ALL SHAREHOLDERS:

I hereby present the annual report with the annual results (the "**2013 Annual Results**") of Ausnutria Dairy Corporation Ltd (the "**Company**") and its subsidiaries (the "**Group**") for the year ended 31 December 2013 (the "**Year 2013**").

First of all, on behalf of the board (the "**Board**") of directors (the "**Directors**") of the Company, I would like to take this opportunity to express our sincere apologies to all shareholders of the Company (the "**Shareholders**"), potential investors, business partners and other stakeholders for the continuing suspension of trading in the shares of the Company (the "**Shares**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 29 March 2012 (the "**Suspension**") due to the delay in publishing the annual results of the Company for the year ended 31 December 2011 (the "**2011 Annual Results**") as a result of the Unresolved Issues (as defined below) identified by Ernst & Young ("**EY**"), the auditors of the Company. The 2011 Annual Results was subsequently published in December 2013 and the corresponding annual report (the "**2011 Annual Report**") was despatched to the Shareholders shortly afterwards.

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

Ernst & Young modifies its audit opinion on the consolidated financial statements for the Year 2013. The Board wishes to highlight that such modification only relates to the comparability of the Group's profits and cash flows for the Year 2013 and the modified comparative information for the Group's profit and cash flows for the year ended 31 December 2012 (the "**Year 2012**") (but not on the Group's consolidated statement of financial position as at 31 December 2012). The Board considers that such modification literally means that there is an otherwise clean opinion on the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the Year 2013, and accordingly, such technical modification would be removed in the consolidated financial statements for the year ending 31 December 2014.

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

UNRESOLVED ISSUES IDENTIFIED BY EY

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

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

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

Resumption Conditions imposed by the Stock Exchange

As set out in the announcement of the Company dated 3 July 2012, on 26 June 2012, the Company received a letter from the Stock Exchange, in which the Stock Exchange stated the following Resumption Conditions for the Company:

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

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

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

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

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

Chairman's Statement

BUSINESS OVERVIEW

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

As one of the key components of the PRC dairy market, the paediatric milk formula market has been expanding rapidly as well. The increasing number of working mothers in the PRC, coupled with the convenience and comprehensive nutritional benefits offered by infant formula products, have resulted in growing popularity among mothers in the PRC to choose infant formulas for their children.

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

As a result of the above, the Year 2013 and the periods thereafter continue to be a complicated and challenging time for the Group which has resulted in a short term pressure in both the sales and profit for the first few months in 2014. While it is the Board's priority to deal with the Unresolved Issues and to seek for the Resumption, the Company has taken strategic moves to comply with the New Policies and at the same time to build the Group's upstream production and procurement capability in order to capture the growing markets in the PRC and other overseas markets.

In recent years, the Group continued to invest in new information systems (the "**New IT Systems**") so as to establish the full tracking systems for its production and distribution, which are now new mandatory requirements under the New Policies in the PRC. In addition, the Group has launched a new cow milk infant formula, namely the Hyproca 1897 series, which are targeted to penetrate into the high-end sector of the PRC market as well as the continue in the establishment of subsidiaries for the distribution of the Group's goat milk based infant formula in other countries during the Year 2013. In October 2013, the Group approved the conducting of the clinical trials for the application of the approval from the Food and Drug Administration ("**FDA**") for the sale of Kabrita Series of products in the United States.

In recent years, paediatric milk formula powder brands with high quality raw milk sourced from overseas have gained increasing market shares. The increase in the demand for high quality paediatric milk formula sourced from overseas have also contributed to the increase in the demand for the dairy products produced by Ausnutria Hyproca B.V. ("**Ausnutria Hyproca**"), a 51%-owned subsidiary of the Company, and its subsidiaries (the "**Ausnutria Hyproca Group**"), which was acquired by the Group in 2011 with milk source and production facilities based in the Netherlands, for the Year 2013.

During the Year 2013, the Group has granted two shareholders' loans to the Ausnutria Hyproca Group of a total of EURO 17.0 million (equivalent to approximately RMB142.8 million) (Year 2012: Nil) for the financing of the capital expenditure plans, including but not limited to the acquisition of approximately 140,000 square meters of land in the Netherlands for the intended construction of a new factory in Heerenveen, the Netherlands and the upgrade of the milk powder production towers and the purchases of new machineries for the increase in packaging capacity of the Ausnutria Hyproca Group (the "**CAPEX Plan**"). Details of the shareholders' loans are set out in the announcements of the Company dated 7 June 2013 and 5 November 2013, respectively.

The Group will continue to invest in the Ausnutria Hyproca Group in order to increase its production capacity and to enhance the quality standards of the dairy products produced by the Ausnutria Hyproca Group.

For the Year 2013, the Group recorded revenue of approximately RMB1,687.8 million, representing an increase of approximately RMB336.8 million, or approximately 24.9%, from approximately RMB1,351.0 million for the Year 2012. The increase is mainly attributable to (i) the increase in sales of the Group (excluding the Ausnutria Hyproca Group) (the "**Ausnutria Group**") by approximately 20.5%; and (ii) the contribution of revenue of approximately RMB1,101.2 million (Year 2012: approximately RMB864.3 million) by the Ausnutria Hyproca Group.

The Group's gross profit for the Year 2013 was approximately RMB471.8 million, representing an increase of approximately RMB145.6 million, or approximately 44.6%, when compared with the Year 2012. The gross profit margin of the Group increased from approximately 24.1% for the Year 2012 to 28.0% for the Year 2013.

The Group's profit attributable to equity holders of the Company for the Year 2013 amounted to approximately RMB120.7 million, representing an increase of approximately 81.5% when compared with the Year 2012.

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

OUTLOOK

Downstream business

In the Third Plenary Session of the 18th Central Committee of the Communist Party of the PRC, it was announced that the one-child policy which has been in existence for more than thirty years will be relaxed. In early 2013, the PRC government launched the New Policies to improve the national standard for the safety of dairy products which the Company believes will accelerates the consolidation of the paediatric milk powder industry and would eventually lead to the elimination of small and medium enterprises in this industry.

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

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

Chairman's Statement

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

Upstream business

Since 2011, the Company has taken strategic moves to build the Group's upstream production and procurement capability and to capture the growing markets in the PRC and globally by acquiring an aggregate of 51% equity interests in Ausnutria Hyproca which has international presence and expertise in the international paediatric nutritional products. To facilitate the further integration of the business of the Ausnutria Hyproca Group into the Group and with an aim to strengthen the management of the Company with international perspectives, on 7 June 2013, the Group entered into a call option agreement (the "**COA**") with Dutch Dairy Investments B.V. ("**DDI**") under which Ausnutria Dairy (Dutch) Coöperatief U.A. ("**Ausnutria (Dutch)**"), an indirect wholly-owned subsidiary of the Company, was granted a call option by DDI and Ausnutria (Dutch) had the right to exercise at its sole discretion to acquire the remaining 49% equity interests in Ausnutria Hyproca to be settled by the issuance of 202,125,000 new Shares (the "**COA Shares**"), representing approximately 17% of the enlarged issued share capital of the Company. The call option has a life of 12 months from the date of the COA (the "**Initial Period**") which is extendable for a further 12-month period at the unilateral right of DDI. On the same date, Mr. Bartle van der Meer, one of the shareholders and directors of DDI with ample international experience in banking, investment and paediatric nutritional products, has been appointed as an executive Director and chief executive officer of the Company. Details of the COA and the change of Directors were set out in the announcement of the Company dated 7 June 2013.

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

The Group believes that the acquisition of Ausnutria Hyproca not only broadens and secures the Group's long term milk supply sources, but also provides a very good platform for the globalisation of the Group's businesses in the long run. Upon fulfilling of the Resumption Conditions, which is one of the conditions for the completion of the COA, the Company will take immediate and active steps in critically evaluating and assessing the execution of the call option.

Other policies

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

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

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

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

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

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

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

Chairman's Statement

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

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

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

Continuing the strategy of upward integration

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

Increase the production capacity in the Netherlands

The Ausnutria Hyproca Group is located in the Netherlands, where there is ample supply of quality cow and goat milk. The demand for dairy products produced by the Ausnutria Hyproca Group has been increasing over the past years. In order to cater for this increasing demand, the Group advanced to the Ausnutria Hyproca Group a shareholder loan of EURO 7.0 million (equivalent to approximately RMB58.8 million) and EURO 10.0 million (equivalent to approximately RMB84.0 million) in June 2013 and December 2013, respectively, for the CAPEX Plan.

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

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

The Ausnutria Hyproca Group specialises in the complete chain of collecting fresh Dutch goat milk from farms to finished goods and is one of the leading producers of goat milk products in the world. The Group has commenced the launch of Kabrita Series products in the PRC since the fourth quarter of 2011. For the Year 2013, the revenue derived from the Kabrita Series of products in the PRC amounted to approximately RMB137.7 million (2012: approximately RMB36.2 million).

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

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

Despite the increase in market competition of paediatric nutritional products in the world, particularly in the PRC, and the more stringent rules and regulations imposed by the PRC government which has created uncertainties and a temporary interruption on the dairy industry in the PRC, including the Group, the Board believes that the Group is well positioned to face the challenges ahead and is optimistic about its future.

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

Strengthening of the corporate governance

The Group will continuously and proactively strengthen its corporate governance so as to establish a solid foundation for future growth and to rebuild the confidence of the Shareholders and potential investors. The Company will use its best endeavors to continue to strive for the highest returns and value to the Shareholders in the long run.

APPRECIATION

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

Yan Weibin
Chairman

Changsha City, PRC
27 June 2014

Management Discussion and Analysis

FINANCIAL REVIEW

Overall performance

	2013 RMB'M	2012 RMB'M
REVENUE:		
– Ausnutria Group	586.6	486.7
– Ausnutria Hyproca Group	1,148.4	874.9
	1,735.0	1,361.6
Less: Intersegment sales	(47.2)	(10.6)
– Group (including the Ausnutria Hyproca Group)	1,687.8	1,351.0
GROSS PROFIT:		
– Ausnutria Group	309.9	253.2
– Ausnutria Hyproca Group	163.9	73.1
	473.8	326.3
Less: Intersegment results	(2.0)	(0.1)
– Group (including the Ausnutria Hyproca Group)	471.8	326.2
	%	%
GROSS MARGIN:		
– Ausnutria Group	52.8	52.0
– Ausnutria Hyproca Group	14.3	8.4
– Group (including the Ausnutria Hyproca Group)	28.0	24.1
PROFIT ATTRIBUTABLE TO EQUITY OWNERS OF THE PARENT:		
– Ausnutria Group	115.5	70.3
– Ausnutria Hyproca Group	6.2	(3.7)
	121.7	66.6
Less: Intersegment results	(1.0)	(0.1)
– Group (including the Ausnutria Hyproca Group)	120.7	66.5

Revenue – Overall

For the Year 2013, the Group recorded revenue of approximately RMB1,687.8 million, representing an increase of approximately RMB336.8 million, or approximately 24.9%, from approximately RMB1,351.0 million for the Year 2012. The increase is mainly attributable to (i) the increase in sales of the Ausnutria Group by approximately 20.5%; and (ii) the contribution of revenue by the Ausnutria Hyproca Group as a result of the continuous increases in the demand for paediatric nutrition products from its customers in the Netherlands and other overseas countries.

Revenue – Ausnutria Group

During the Year 2013, A-choice Series, Best-choice Series, Allnutria Series and Allnutria Organic Series continued to be the major series of paediatric milk formula of the Ausnutria Group which are all imported from overseas and are designed to target consumers for premium products in the PRC. During the Year 2012 and the Year 2013, the Ausnutria Group has also commenced the launch of other imported cow milk infant formula, namely the Puredo Series in June 2012 and the Hyproca 1897 Series in April 2013, which are targeted to penetrate into different sectors of the PRC. The revenue derived from the Puredo Series and the Hyproca 1897 Series of products in the PRC was approximately RMB54.3 million (Year 2012: approximately RMB30.7 million) and approximately RMB41.3 million (Year 2012: Nil), respectively.

The increase in the revenue of the Ausnutria Group was in line with the continuous increase in demand for infant milk formula in the PRC, particularly those imported from the overseas.

Revenue – Ausnutria Hyproca Group

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

The increase in the revenue of the Ausnutria Hyproca Group for the Year 2013 was primarily attributed to (i) the continuous increase in the revenue of Kabrita to approximately RMB137.7 million, representing an increase of approximately RMB101.5 million, or approximately 280.4%, from the Year 2012; and (ii) the continuous increases in the demand for paediatric nutrition products from the customers in the Netherlands and other overseas countries due to the increasing recognition of the good quality of milk supply in the Netherlands and the reputation of good quality products delivered by the Ausnutria Hyproca Group that was built up since the establishment of the Ausnutria Hyproca Group in 1897.

Management Discussion and Analysis

In order to cater for the increasing in demand, the Ausnutria Hyproca Group has commenced the improvement plans on increasing the production capacity of the Ausnutria Hyproca Group's operations, including but not limited to the upgrade of the dry blending and package factory and the installation of a new kitchen for wet mix and a new spray tower in its factories since 2013. In addition, in January 2014, the Ausnutria Hyproca Group has purchased a parcel of land in the Industry Zone of Heerenveen, in the Netherlands, of about 140,000 square meters for the purpose of erecting a new factory. The Group has already completed the detailed design and feasibility study on the new factory and the Board is at the final stage of granting approval to proceed with such construction plan.

Gross profit

The Group's gross profit for the Year 2013 was approximately RMB471.8 million, representing an increase of approximately RMB145.6 million, or approximately 44.6%, when compared with the Year 2012. The gross profit margin of the Group for the Year 2013 increased from approximately 24.1% for the Year 2012 to 28.0%, primarily due to the improvement in the gross profit margin of the Ausnutria Hyproca Group which was adversely affected by the temporary interruption of the production as a result of the delivery of some possible contaminated raw materials by one of the supplement suppliers to the Ausnutria Hyproca Group during the Year 2012; and the increase in proportion of sales contributed by the own branded label business, namely, the Kabrita and the Neolac, which has contributed a higher gross profit margin when compared with the OEM and private label businesses of the Ausnutria Hyproca Group.

Other income and gains

An analysis of other income and gains is as follows:

	Notes	2013 RMB'M	2012 RMB'M
Interest income on held-to-maturity investments	(i)	2.6	5.8
Interest income on bank deposits	(ii)	21.4	12.3
Government grants		1.4	1.0
Others		0.5	3.1
		25.9	22.2

(i) The Group has entered into various one-year term entrusted fund management agreements with independent third parties since 2011. The Group invested in these treasury products offered by banks with a sole objective of maximising the return with limited risks on the then excess cash position of the Group. The entrusted loans were classified as held-to-maturity investments in the statement of financial position. The decrease in interest income on held-to-maturity investments was because the Group has adopted a more prudent treasury approach since 2012 by gradually reducing its investment in entrusted loans from RMB200.0 million in the Year 2011 to RMB60.0 million in the Year 2012. As at 31 December 2013, the Group did not have any investment in entrusted loans and all the excess cash of the Group was placed in time deposits with reputable financial institutions in the PRC instead.

(ii) The increase in interest income was a result of the continuous improvements in the average bank balances of the Group and the change in treasury approach of the Group by switching its excess cash to time deposits when compared with the Year 2012. Also, the un-utilised portion of the proceeds from the global offering of the Shares in 2009 (the "**IPO**") that was deposited in banks also contributed to the increase in interest income.

Selling and distribution expenses

An analysis of selling and distribution expenses is as follows:

	2013 RMB'M	2012 RMB'M
Ausnutria Group	130.9	119.9
Ausnutria Hyproca Group	96.9	36.5
	227.8	156.4

Selling and distribution expenses mainly comprised advertising and promotion expense, salaries and travelling costs of the sales and marketing staff and delivery costs. Selling and distribution costs represented approximately 13.5% and 11.6% of revenue for the Year 2013 and the Year 2012, respectively.

The selling and distribution expenses of the Ausnutria Group for the Year 2013 remains stable when compared with the Year 2012 and represented approximately 22.3% (Year 2012: 24.6%) of the Ausnutria Group's revenue. The selling and distribution expenses of the Ausnutria Hyproca Group represented approximately 8.4% and 4.2% of the Ausnutria Hyproca Group's revenue for the Year 2013 and the Year 2012, respectively. The increase in the selling and distribution costs of the Ausnutria Hyproca Group was mainly attributed to (i) the increase in the sales and marketing expenses for the promotion of the Kabrita Series of products in the PRC by approximately RMB18.4 million to approximately RMB53.9 million; and (ii) the increase in sales of the other operating subsidiaries of the Ausnutria Hyproca Group.

Administrative expenses

An analysis of the administrative expenses is as follows:

	2013 RMB'M	2012 RMB'M
Ausnutria Group	45.1	46.7
Ausnutria Hyproca Group	39.6	27.8
	84.7	74.5

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

Management Discussion and Analysis

Administrative expenses of the Ausnutria Group remained fairly stable during the Year 2013. The increase in the administrative expenses of the Ausnutria Hyproca Group was primarily attributed to the increase in headcounts on both the managerial and administrative staff to cope with the continuous increase in the scale of operations of the Ausnutria Hyproca Group, particular for the own branded label business, namely, Kabrita and Neolac in the PRC. The administrative expenses incurred from the own branded label business in the PRC increased by approximately RMB9.7 million to approximately RMB13.9 million for the Year 2013.

Other expenses

Other expenses mainly comprised legal and professional fees incurred as a result of the Unresolved Issues of approximately RMB11.2 million (Year 2012: RMB14.1 million); write-off of trade receivables attributed to a number of distributors who have ceased trading with Ausnutria China of approximately RMB2.8 million (Year 2012: RMB1.9 million); exchange losses arising from the translation of bank deposits that were denominated in EURO and Hong Kong dollars to RMB of a total of approximately RMB1.1 million (Year 2012: approximately RMB0.2 million) and impairment on property, plant and equipment of approximately RMB1.9 million (Year 2012: Nil).

Finance costs

The finance costs of the Group for the Year 2013 amounted to approximately RMB6.4 million (Year 2012: RMB4.3 million), representing the interest on bank loans and other borrowings principally for the financing of the working capital and the production expansion plan of the Ausnutria Hyproca Group.

The increase in finance costs was mainly attributable to the increase in the bank overdrafts facilities granted to the Ausnutria Hyproca Group for the financing of its working capital and the draw down of a new bank loan of EURO 10.0 million (equivalent to approximately RMB84.0 million) in June 2013 by the Ausnutria Group for the financing of the production expansion plan of the Ausnutria Hyproca Group.

Income tax expenses

The profits generated by the Group were mainly derived from operations in the PRC and the Netherlands. Under the PRC income tax laws, enterprises are subject to corporate income tax (the "**CIT**") at a rate of 25%. Ausnutria China was designated as a High-tech Enterprise in 2010 and was granted a preferential CIT tax rate of 15% for the three years ended 31 December 2012. All other subsidiaries established in the PRC are subject to the standard CIT rate of 25%. The standard CIT rate in the Netherlands was applied at 20% for the first EURO 200,000 taxable profits and 25% for the taxable profits exceeding EURO 200,000.

In March 2014, Ausnutria China succeeded in renewing its High-tech Enterprise qualification, upon which Ausnutria China will continue to entitle to the preferential CIT tax rate of 15%, for another three years ending 31 December 2015.

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

	The Netherlands		Mainland China		Others		Group	
	2013	2012	2013	2012	2013	2012	2013	2012
Profit/(loss) before tax (RMB'M)	7.4	(1.7)	171.2	108.9	(20.8)	(21.8)	157.8	85.4
Income tax expense (RMB'M)	0.7	(0.4)	30.2	17.8	–	–	30.9	17.4
Effective income tax rate (%)	10.1	(24.1)	17.6	16.3	–	–	19.6	20.4

Most of the profits generated by the Group for the Year 2013 and the Year 2012 were derived in the Mainland China. The effective income tax rate for profit generated from Mainland China for the Year 2013 at 17.6% remained fairly stable when compared with the Year 2012. The effective income tax rate was slightly above the preferential CIT tax rate of 15% as part of the profit was contributed by the other operating subsidiary established in the PRC for the sale of Kabrita products which are subject to the standard CIT rate of 25%.

The effective income tax rate for profit generated from the Netherlands for the Year 2013 of 10.1% was mainly due to there was tax incentive granted by the tax authority in the Netherlands for the research and development activities conducted by the Ausnutria Hyproca Group and the deferral of part of the profit tax as a result of the capital expenditures incurred by the Ausnutria Hyproca Group during the Year 2013.

The effective income tax rate of the Group was slightly higher than the effective tax rate for profits generated from other jurisdictions as there were losses incurred from elsewhere mainly for the professional fees incurred for the handling of the Unresolved Issues and the administrative expenses incurred by the Company. As the Company (which was incorporated solely for investment holding purpose) did not generate any assessable profits for the Year 2013 and the Year 2012, the expenses incurred were not tax deductible.

Profit attributable to equity holders of the Company

The Group's profit attributable to equity holders of the Company for the Year 2013 amounted to approximately RMB120.7 million, representing an increase of approximately 81.5% when compared with the Year 2012. The increase in net profit was mainly contributed by the growth in the operating performance of the Ausnutria Group as a result of the increasing in market demand of import infant milk powder from the PRC. The increase was partly offset by the adverse impact of the temporary interruption on the production of the Ausnutria Hyproca Group as a result of the production expansion plan which had caused one of the two milk powder production towers of Hyproca Lyempf to be suspended from production for approximately four months in the Year 2013.

Management Discussion and Analysis

Analysis on Consolidated Statement of Financial Position

Non-current assets

As at 31 December 2013, the total non-current assets of the Group amounted to approximately RMB511.9 million (31 December 2012: approximately RMB406.3 million), mainly comprised property, plant and equipment of approximately RMB361.0 million (31 December 2012: approximately RMB264.3 million), goodwill arising from the acquisition of Ausnutria Hyproca of approximately RMB85.5 million (31 December 2012: approximately RMB84.5 million), other intangible assets of approximately RMB33.5 million (31 December 2012: approximately RMB30.1 million) and deferred tax assets of approximately RMB29.8 million (31 December 2012: approximately RMB25.3 million).

The increase in the non-current assets of the Group as at 31 December 2013 was principally due to the increase in property, plant and equipment of the Ausnutria Hyproca Group as part of its continuous production expansion plan to cope with the increasing demand of its products from the worldwide customers. The amount of capital expenditures invested by the Ausnutria Hyproca Group for the Year 2013 amounted to approximately RMB126.2 million (Year 2012: approximately RMB32.5 million). Other non-current assets position of the Group as at 31 December 2013 remained fairly stable when compared with that as at 31 December 2012.

Current assets

As at 31 December 2013, the total current assets of the Group amounted to approximately RMB1,490.8 million (31 December 2012: approximately RMB1,182.1 million), mainly comprised inventories of approximately RMB315.7 million (31 December 2012: approximately RMB190.9 million), trade receivables of approximately RMB140.5 million (31 December 2012: approximately RMB122.6 million), bills receivable of approximately RMB35.1 million (31 December 2012: approximately RMB18.7 million), pledged time deposits of approximately RMB213.0 million (31 December 2012: Nil), time deposits with banks in the PRC of RMB496.3 million (31 December 2012: RMB420.0 million) and cash and cash equivalents of approximately RMB161.2 million (31 December 2012: approximately RMB282.7 million).

Inventories

An analysis of the inventories is as follows:

	2013 RMB'M	2012 RMB'M
Ausnutria Group	90.4	51.3
Ausnutria Hyproca Group	225.3	139.6
	315.7	190.9

The increase in inventories as at 31 December 2013 was primarily attributed to the increase in the inventory level of the Ausnutria Hyproca Group in order to cope with the continuous increase in demand of its products from its worldwide customers including its own branded labels, namely, Kabrita and Neolac. The Ausnutria Hyproca Group has maintained a greater variety of raw materials and packaging materials in order to meet the growing demand from the customers.

The inventory turnover days of the Ausnutria Hyproca Group as at 31 December 2013 was approximately 71 days (31 December 2012: approximately 54 days) and was in line with the stock planning level.

The inventory turnover days of the Ausnutria Group as at 31 December 2013 was approximately 93 days (31 December 2012: approximately 169 days). In 2012, there was a temporary delay in the delivery on some of the orders by the suppliers of the Ausnutria Group in the fourth quarter of 2012 which had caused the inventory level to be at a comparatively lower level. The inventory level as at 31 December 2013 was in line with the normal inventory planning level of the Ausnutria Group.

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

	2013 RMB'M	2012 RMB'M
Trade receivables:		
– Ausnutria Group	28.0	35.4
– Ausnutria Hyproca Group	112.5	87.2
	140.5	122.6
Bills receivable	35.1	18.7
	175.6	141.3

The trade receivable turnover days of the Ausnutria Group and the Ausnutria Hyproca Group as at 31 December 2013 was approximately 20 days (31 December 2012: approximately 22 days) and approximately 33 days (31 December 2012: approximately 39 days), respectively, which remained fairly stable and were in line with the credit periods granted by the Group to its customers.

Pledged deposits
As set out in the announcements of the Company dated 7 June 2013 and 5 November 2013, the Company has approved to grant two shareholders' loans of EURO 7.0 million (equivalent to approximately RMB58.8 million) (31 December 2012: Nil) and EURO 10.0 million (equivalent to approximately RMB84.0 million) (31 December 2012: Nil) for the financing of the production expansion plans of the Ausnutria Hyproca Group. In view that most of the funding of the Ausnutria Group is denominated in RMB and placed in the PRC, the Ausnutria Group has pledged its RMB deposits in the PRC of a total of RMB213.0 million (31 December 2012: Nil) to obtain the bank facilities in Europe for the financing of the shareholders' loans and other capital expenditure needs of the Ausnutria Hyproca Group in the near future.

Time deposits and cash and cash equivalents

As at 31 December 2013, the Group's cash and bank balances and time deposits amounted to approximately RMB657.5 million, representing a decrease of approximately RMB45.2 million, or approximately 6.4%, from RMB702.7 million as at 31 December 2012, of which approximately HK$109.1 million (31 December 2012: approximately HK$174.3 million) represented the unutilised portion of the proceeds from the IPO.

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

Current liabilities

As at 31 December 2013, the total current liabilities of the Group amounted to approximately RMB722.7 million (31 December 2012: approximately RMB440.6 million), mainly comprised trade payables of approximately RMB168.0 million (31 December 2012: approximately RMB104.7 million), other payables and accruals of approximately RMB256.6 million (31 December 2012: approximately RMB229.7 million), interest-bearing bank loans and other borrowings of approximately RMB260.0 million (31 December 2012: approximately RMB95.6 million) and CIT payables of approximately RMB37.5 million (31 December 2012: approximately RMB9.5 million).

Trade payables

An analysis of the trade payables is as follows:

	2013 RMB'M	2012 RMB'M
Ausnutria Group	16.0	9.0
Ausnutria Hyproca Group	152.0	95.7
	168.0	104.7

The increase in trade payables of the Group as at 31 December 2013 was mainly attributable to the increase in the amount of procurement as a result of the increase in the scale of production of the Ausnutria Hyproca Group which was driven by the continuous increase in worldwide demand of dairy products originated in the Netherlands.

The trade payable turnover days of the Ausnutria Group and the Ausnutria Hyproca Group as at 31 December 2013 was approximately 16 days (31 December 2012: approximately 24 days) and approximately 47 days (31 December 2012: approximately 37 days), respectively. The increase in the trade payable turnover days of the Ausnutria Hyproca Group was a result of the increase in average credit periods granted by the major suppliers due to the increase in quantity of raw materials purchased by the Ausnutria Hyproca Group.

Other payables and accruals

Other payables and accruals mainly represented advances and deposits from customers of a total of approximately RMB60.5 million (31 December 2012: approximately RMB100.9 million), deferred income of approximately RMB70.1 million (31 December 2012: approximately RMB46.9 million), accrued salaries and welfare of approximately RMB25.3 million (31 December 2012: approximately RMB21.7 million), other tax payables of approximately RMB14.7 million (31 December 2012: approximately RMB4.0 million) and accrued marketing and promotion expenses and professional fees.

The increase in other payables and accruals was mainly due to the increase in sales in the fourth quarter of the Year 2013 when compared with the same period of the Year 2012. More accruals are required to be made for the deferred revenue that were recognised by the distributors and end customers, and the marketing and promotion expenses that were incurred but not yet settled as at the end of the reporting period.

Interest-bearing bank loans and other borrowings

The interest-bearing bank loans and other borrowings as at 31 December 2013 and 2012 were all primarily used for the financing of the daily working capital and capital expenditures of the Ausnutria Hyproca Group.

The increase in the interest-bearing bank loans and other borrowings as at 31 December 2013 was mainly due to (i) the increase in the bank overdrafts of the Ausnutria Hyproca Group for the financing of its daily working capital; and (ii) the draw down of a one-year term loan by Ausnutria (Dutch) for the financing of the capital expenditure plan of the Ausnutria Hyproca Group as set out in the announcement of the Company dated 7 June 2013.

Non-current liabilities

As at 31 December 2013, the total non-current liabilities of the Group amounted to approximately RMB85.5 million (31 December 2012: approximately RMB84.0 million), mainly comprised interest-bearing bank loans and other borrowings of approximately RMB36.9 million (31 December 2012: approximately RMB39.0 million), accruals for defined benefit plan of approximately RMB18.5 million (31 December 2012: approximately RMB17.4 million) and deferred tax liabilities of approximately RMB30.2 million (31 December 2012: approximately RMB27.6 million).

Interest-bearing bank loans and other borrowings

The interest-bearing bank loans and other borrowings as at 31 December 2013 and 2012 were all attributed to the Ausnutria Hyproca Group for the financing of its daily working capital and capital expenditures.

Management Discussion and Analysis

Accruals for defined benefit plan

The Ausnutria Hyproca Group operates unfunded defined benefit plans for its qualified employees. Under the plans, the qualified employees are entitled to retirement benefits at rates varying at certain percentage of their final salaries on attainment of a retirement age of 65. The accruals for defined benefit plans of approximately RMB18.5 million (31 December 2012: approximately RMB17.4 million) were determined based on the actuarial valuations as at 31 December 2013 carried out by independent professional valuers using the projected unit credit actuarial valuation method.

No defined benefit plan was operated by the Ausnutria Group.

Deferred tax liabilities

The balance represented (i) the tax effect arising from the timing differences on the depreciation and amortisation charged between accounting and tax reporting purpose that was attributed to the Ausnutria Hyproca Group as at 31 December 2013 and the fair value adjustment arising from the acquisition of Ausnutria Hyproca of a total of approximately RMB18.5 million (31 December 2012: approximately RMB21.4 million); and (ii) the withholding tax amounting to approximately RMB11.7 million (31 December 2012: approximately RMB6.2 million) calculated at 10% on the distributable profits of Ausnutria China.

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

Non-controlling interests

As at 31 December 2013 and 2012, the balance mainly represented the 49% equity interests in Ausnutria Hyproca owned by DDI.

Analysis on Consolidated Statement of Cash Flows

An extract of the cash flows information of the Group for the Year 2013 and the Year 2012 is as follows:

	2013 RMB'M	2012 RMB'M
Net cash flows from operating activities	82.6	168.1
Net cash flows used in investing activities	(361.9)	(205.3)
Net cash flows from/(used in) financing activities	159.5	(23.5)
Net decrease in cash and cash equivalents	(119.8)	(60.7)

Net cash flows from operating activities

Net cash flows from operating activities of the Group for the Year 2013 was approximately RMB82.6 million (Year 2012: approximately RMB168.1 million), while the profit before tax for that year was approximately RMB157.8 million (Year 2012: approximately RMB85.4 million).

The net difference between the profit before tax and net cash flows from operating activities was mainly attributable to the increase in the scale of operations of the Ausnutria Hyproca Group which has required additional working capital for the business expansion. The increase in working capital needs of the Ausnutria Hyproca Group was partly financed by the increase in trade credit granted by its suppliers and partly by the increase in the bank overdrafts facilities in the Netherlands.

Net cash flows used in investing activities

The net cash flows used in investing activities of the Group for the Year 2013 of approximately RMB361.9 million (Year 2012: approximately RMB205.3 million) mainly represented (i) the purchase of property, plant and equipment of approximately RMB126.7 million (Year 2012: approximately RMB40.3 million), mainly for the expansion of the production capacity of the Ausnutria Hyproca Group; (ii) the increase in pledged time deposits of RMB213.0 million (Year 2012: Nil); and (iii) the net increase in the Group's time deposits with banks in the PRC by RMB76.3 million (Year 2012: RMB310.0 million); which was offset by the net proceeds received from the investments in the entrusted loans of RMB60.0 million (Year 2012: RMB140.0 million).

Net cash flows from/(used in) financing activities

The net cash flows from financing activities of the Group for the Year 2013 of approximately RMB159.5 million (Year 2012: used in of approximately RMB23.5 million) was primarily due to the draw down of the additional overdrafts facilities of approximately EURO 8.0 million (equivalent to approximately RMB67.2 million) granted by the bank of the Ausnutria Hyproca Group for the financing of its daily working capital and the draw down of a one-year term loan by Ausnutria (Dutch) of EURO 10.0 million (equivalent to approximately RMB84.0 million) for the financing of the capital expenditure plan of the Ausnutria Hyproca Group as set in the announcement of the Company on 7 June 2013.

Net cash flows used in financing activities for the Year 2012 mainly represented the acquisition of the remaining 8.4% equity interests in Hyproca Lyempf, a 91.6% owned subsidiary of Ausnutria Hyproca at a consideration of EURO 2.8 million (equivalent to approximately RMB23.0 million).

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

There were no material investments and acquisitions and disposals of subsidiaries and associated companies during the Year 2013.

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	
	2013	2012
Cash and cash equivalents (RMB'M)	**161.2**	282.7
Time deposits (RMB'M)	**496.3**	420.0
Total bank loans and other borrowings (RMB'M)	**296.8**	134.6
Total assets (RMB'M)	**2,002.7**	1,588.4
Gearing ratio (%) [1]	**14.8**	8.5

Note:

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

As at 31 December 2013, the Group had pledged the land and buildings, plant and machineries, inventories and trade receivables that were attributable to the Ausnutria Hyproca Group with a total carrying value of EURO 68.0 million, equivalent to approximately RMB572.2 million (31 December 2012: approximately EURO 42.9 million, equivalent to approximately RMB357.1 million) and the time deposits that were attributable to the Ausnutria Group of RMB213.0 million (31 December 2012: Nil) for the banking facilities granted to the Group.

FOREIGN EXCHANGE RISK

The operations of the Group are mainly carried out in the PRC and the Netherlands. During the Year 2013, revenue, cost of sales and operating expenses of the Group are mainly denominated in Renminbi ("**RMB**"), Hong Kong dollars ("**HK$**"), United States dollars ("**US$**") or EURO and RMB is the Group's presentation currency. The Group is exposed to potential foreign exchange risk as a result of fluctuation of HK$, US$ or EURO against RMB. The Group did not enter into any arrangements for the purpose of hedging against the potential foreign exchange risks during the year under review.

The management will monitor closely on its foreign currency exposure to ensure appropriate measures are taken promptly against any significant potential adverse impact.

INTEREST RATE RISK

The Ausnutria Hyproca Group has exposure to the risk of change in market interest rate in relation to its interest-bearing bank loans and other borrowings with a floating interest rate. In order to minimise the impact of the interest rate exposure, the Ausnutria Hyproca Group entered into interest rate swap contracts with bank, effective from 1 October 2007, of a notional amount of EURO 2.5 million with 3-month floating EURO Interbank Offered Rate being swapped to a fixed interest rate of 4.45% per annum. The aforesaid derivative financial instrument will expire in October 2017. The above interest rate swap contracts are revalued at their fair values as at each of 31 December 2013 and 2012.

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 2013, the Group, as lessee, had total future minimum lease payments under non-cancellable operating leases amounting to approximately RMB6.6 million (31 December 2012: approximately RMB4.8 million).

As at 31 December 2013, the Group had contracted, but not provided for, capital commitments in respect of purchase of plant and machineries and leasehold improvements of a total of RMB23.3 million (31 December 2012: RMB11.8 million).

CONTINGENT LIABILITIES

As at 31 December 2013, the Group did not have any significant contingent liabilities (31 December 2012: Nil).

Management Discussion and Analysis

USE OF PROCEEDS

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

The use of the Net IPO Proceeds from the IPO up to 31 December 2013 was as follows:

	As stated in the Prospectus* HK$'000	Utilised HK$'000	Balance as at 31 December 2013 HK$'000
Invest in upstream operations	246,930	(192,776)	54,154
Expand the Group's distribution network and brand building	246,930	(246,930)	–
Enhance the Group's research and development efforts	82,310	(48,282)	34,028
Introduce new series of organic paediatric nutrition products	82,310	(61,346)	20,964
Establish new production lines and warehouse	82,310	(82,310)	–
General working capital	82,310	(82,310)	–
	823,100	(713,954)	109,146

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

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

HUMAN RESOURCES

Number of full-time employees	Mainland China	Hong Kong	The Netherlands	Total
31 December 2013				
Ausnutria Group	607	4	–	611
Ausnutria Hyproca Group	267	–	249	516
	874	4	249	1,127
31 December 2012				
Ausnutria Group	530	3	–	533
Ausnutria Hyproca Group	203	–	192	395
	733	3	192	928

For the Year 2013, total employee costs, including directors' emoluments, amounted to approximately RMB189.8 million (Year 2012: approximately RMB136.2 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.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Wong Wei Hua Derek

AUTHORISED REPRESENTATIVES

Ms. Ng Siu Hung
Mr. Wong Wei Hua Derek

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SPECIAL REVIEW COMMITTEE

Mr. Qiu Weifa
Mr. Chan Yuk Tong

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISER (As to Hong Kong law)

King & Wood Mallesons

COMPLIANCE ADVISER

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

REGISTERED OFFICE

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

PRINCIPAL PLACES OF BUSINESS

In Mainland China

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

In Hong Kong

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

In the Netherlands

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

STOCK CODE

1717

COMPANY'S WEBSITE

www.ausnutria.com.hk

Directors' and Senior Management's Biographies

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

DIRECTORS

Executive Directors

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

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

Directors' and Senior Management's Biographies

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

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

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

Non-executive Director

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

Directors' and Senior Management's Biographies

Independent Non-executive Directors

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

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

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

Listed Company	**Role**	**Period**
Present engagements:		
FDG Electric Vehicles Limited (formerly known as Sinopoly Battery Limited)	INED	November 2006 to present
Global Sweeteners Holdings Limited	INED	June 2008 to present
Golden Shield Holdings (Industrial) Limited	Non-executive director	June 2014 to present

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

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

Directors' and Senior Management's Biographies

SENIOR MANAGEMENT

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

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

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

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

Directors' and Senior Management's Biographies

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

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

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

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

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

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

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

Corporate Governance Report

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

CORPORATE GOVERNANCE

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

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (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, save for the exceptions as set out in the following, the Company has complied with the respective code provisions of the CG Code during the Year 2013 and up to the date of this report.

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

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

2) Code provision A.1.8

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

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

3) Code provisions A.6.7 and E.1.2

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

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

Internal control review

Apart from the above and save for the findings of the internal control review conducted by PKF as disclosed in the announcement of the Company dated 11 November 2013 (the "**First Stage IC Review**") and 27 June 2014 (the "**Second Stage IC Review**"), in the opinion of the Directors, the Company has complied with the code provisions set out in the CG Code during the Year 2013.

COMPLIANCE ADVISER

The Company has appointed Asian Capital (Corporate Finance) Limited as its compliance adviser on an on-going basis for consultation on compliance with the Listing Rules for a period of two years from 7 June 2013. No compliance adviser has been appointed by the Company prior to 7 June of 2013.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the Listing Rules as the standards for the Directors' dealings in the securities of the Company. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code for the Year 2013 and up to the date of this report.

BOARD OF DIRECTORS

Responsibilities

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

Board Composition

The Board comprised seven members, including three executive Directors, one non-executive Director and three INEDs as at 31 December 2013. Except for the business relationship between Mr. Wu Yueshi (resigned on 7 June 2013) and Mr. Yan Weibin in Longping High-tech and Changsha Xin Da Xin Group, the Board members have no financial, business, family or other material/relevant relationships with each other. The Board's composition is formed to be well balanced to ensure strong independence exists across the Board, with diversity of skills, expertise, experience and qualifications concerning the Directors. The biographies of the Directors are set out on pages 27 to 30 of this report.

The members of the Board during the Year 2013 were as follows:

Executive Directors:

Mr. Yan Weibin	(Elected as Chairman on 7 June 2013)
Mr. Bartle van der Meer	(Appointed on 7 June 2013)
Ms. Ng Siu Hung	
Mr. Wu Yueshi	(Resigned on 7 June 2013)
Mr. Chen Yuanrong	(Resigned on 7 June 2013)

Non-executive Director:

Mr. Dai Li	(Appointed on 7 June 2013*)

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

* Subsequent to the Year 2013. Mr. Dai Li resigned on 4 March 2014 as non-executive Director.

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

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

The Directors as at the date of this report were:

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

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

Corporate Governance Report

Delegation by the Board

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

Executive Directors

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

Chairman and Chief Executive Officer

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

Non-Executive Director and Independent Non-Executive Directors

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

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

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

The Company has received an annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules and considers that all INEDs to be independent in accordance with the definition of the Listing Rules for the Year 2013 and up to the date of this report.

Appointment, Re-election and Removal of Directors

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

Remuneration of Directors and Senior Management

The remuneration of Directors and the members of the senior management by band for the Year 2013 is set out below:

Remuneration bands (HK$)	Number of persons
0 – 1,000,000	16
1,000,001 – 1,500,000	4
1,500,001 – 2,000,000	1
2,000,001 – 2,500,000	2
	23

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

Board meetings

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

All Directors are provided with relevant materials relating to the matters brought before the meetings. They have separate and independent access to the senior management and the Company Secretary of the Company 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 of the Company and are sent to the Directors for records and are open for inspection by the Directors.

Corporate Governance Report

Directors' Attendance at Board Meetings and Annual General Meeting for the year ended 31 December 2013 and up to the date of this report

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

* Up to the date of this report

** Convened on 28 January 2014

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

Continuous Professional Development

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

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

During the Year 2013, all the Directors had participated in or studied the materials provided for a series of continuous professional development courses and seminar provided by The Hong Kong Institute of Directors as well as by reading newspapers, journals and updates relating to the Group's business and to the legislative regulatory environments in which the Group operates, directors' duties and responsibilities, etc. All the Directors have provided the Company with their records of training they received during the year.

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

Corporate Governance Functions

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

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

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

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

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

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

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledged their responsibility for preparing consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant financial period. In preparing the consolidated financial statements for the Year 2013, the Directors ensured that the consolidated financial statements have been prepared in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis. The Directors are also responsible for the timely publication of the consolidated financial statements of the Group.

However, due to the Unresolved Issues, there has been a delay in publishing the interim/annual results and reports for the Years 2012 and 2013.

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.

Ernst & Young modifies its opinion on the consolidated financial statements for the Year 2013. The Company wishes to highlight that such modification only relates to the comparability of the Group's profits and cash flows for the Year 2013 and the modified comparative information for the Group's profit and cash flows for the Year 2012 (but not on the Group's consolidated statement of financial position as at 31 December 2012). The Board also considers that such modification literally means that there is an otherwise clean opinion on the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the Year 2013, and accordingly, such technical modification would be removed in the consolidated financial statements for the year ending 31 December 2014.

NOMINATION COMMITTEE

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

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

During the Year 2013, the nomination committee adopted and reviewed the board diversity policy. The nomination committee also reviewed 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.

During the Year 2013 and up to the date of this report, the number of nomination committee meetings held and details of the attendance were as follows:

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

Note:

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

* Up to the date of this report

REMUNERATION COMMITTEE

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

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

During the Year 2013, the remuneration committee reviewed the remuneration policy and structure of the Company, and the remuneration packages as well as the annual bonuses of the Directors and the senior management.

During the Year 2013 and up to the date of this report, the number of remuneration committee meetings held and details of the attendance were as follows:

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

Notes:

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

* Up to the date of this report

AUDIT COMMITTEE

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

During the Year 2013 and up to the date of this report, the number of audit committee meetings held and details of the attendance were as follows:

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

* Up to the date of this report

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

During the Year 2013, the audit committee reviewed the 2011 Annual Results, internal control (including the results of the First Stage IC Review) and risk management systems of the Group as well as considered and discussed with the external auditors regarding their re-appointment.

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

SPECIAL REVIEW COMMITTEE

In response to the Unresolved Issues, the Board has put strong emphasis on this, and dealt with the Unresolved Issues promptly on 29 March 2012 by establishing the SRC comprised two of the INEDs, namely Mr. Qiu Weifa and Mr. Chan Yuk Tong, for the purpose of, among other things, investigating into the Unresolved Issues. Details of the works and findings of the SRC are set out in the 2011 Annual Report.

COMPANY SECRETARY

The Company Secretary is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary is responsible for facilitating the Board process, as well as communication among Board members, with the Shareholders and management. For the Year 2013, 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 31 of this report, with details of his diversity of skills, expertise, experience and qualifications.

AUDITORS' REMUNERATION

For the Year 2013, the total fee paid or payable in respect of audit services provided by the Group's external auditors amounted to RMB4,766,000 (2012: RMB6,238,000).

INTERNAL CONTROLS

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

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

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

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

In view of the results of the First Stage IC Review and all the rectification actions taken by the Company and Ausnutria China, the SRC and the Board consider that the material internal control weaknesses that might have given rise to the Unresolved Issues raised by EY and covered in the PwC Report have been rectified.

Further, the Company has engaged PKF to conduct the Second Stage IC Review of the Group's internal control systems, including the Group's internal control components which are not related to the Unresolved Issues and not covered by the First Stage IC Review.

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

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

The SRC and the Board are committed to (i) supervising the management of the Company and Ausnutria China to complete the implementation of PKF's recommendations to rectify the outstanding medium risk internal control weaknesses; and (ii) maintaining sound and effective internal controls to safeguard the Shareholders' investment and the Group's assets.

SHAREHOLDERS' AND INVESTOR RELATIONS

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

The Directors acknowledge their responsibility for the timely holding of AGMs. As disclosed in the section headed "Delay in publishing the financial reports and convening annual general meetings" above, the Company had not yet convened AGM for the financial years ended 31 December 2012 and 2013.

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

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

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

To promote effective communication, the Company maintains a website at www.ausnutria.com.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 2013 and up to the date of is report, there had been no significant change in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS

How Shareholders can convene an Extraordinary General Meeting

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

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

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

Procedures by which Enquiries may be put to the Board

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

Report of the Directors

The Directors present their report and the audited financial statements for the Year 2013.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company of the Group. The Group is principally engaged in the production, marketing and distribution of paediatric milk formula products. The Group is also engaged in the dairy industry in the Netherlands with activities ranging from research and development, milk collection, processing, production, packaging, marketing and sales of dairy products to customers in the Netherlands and other overseas countries. Details of the principal activities of the Company's subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Year 2013.

An analysis of the Group's performance for the Year 2013 by operating segment is set out in note 4 to the financial statements of this report.

RESULTS AND DIVIDENDS

The Group's profit for the Year 2013 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 60 to 148 of this report.

The Board is pleased to recommend the payment of a final dividend of HK$0.10 (Year 2012: Nil) per Share for the Year 2013 out of the Company's share premium account, subject to the approval of the Shareholders at the forthcoming AGM of the Company.

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 149 to 150 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 2013 are set out in note 14 to the financial statements.

BANK BORROWINGS

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

SHARE CAPITAL

There was no movement in the Company's authorised or issued share capital during the Year 2013.

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 2013 and up to the date of this report.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year 2013 are set out in note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company's accumulated losses amounted to approximately RMB42,862,000 (31 December 2012: RMB25,403,000). The Company's share premium account, in the amount of RMB456,267,000 (31 December 2012: RMB533,856,000) as at 31 December 2013, may be distributed under certain conditions.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year 2013, sales to the Group's five largest customers accounted for less than 20.3% (Year 2012: 19.5%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 6.6% (Year 2012: 5.7%). Purchases from the Group's five largest suppliers accounted for approximately 21.9% (Year 2012: 23.6%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 6.3% (Year 2012: 6.6%).

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

DIRECTORS

The Directors who were in the office during the Year 2013 were as follows:

Executive Directors:

Mr. Wu Yueshi	(Resigned as executive Director and Chairman on 7 June 2013)
Mr. Yan Weibin	(Elected as Chairman on 7 June 2013)
Mr. Chen Yuanrong	(Resigned as executive Director and Chief Executive Officer on 7 June 2013)
Mr. Bartle van der Meer	(Appointed as executive Director and Chief Executive Officer on 7 June 2013)
Ms. Ng Siu Hung	

Non-executive Director:

Mr. Dai Li	(Appointed on 7 June 2013*)

Independent non-executive Directors:

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

* *Subsequent to the Year 2013, Mr. Dai Li resigned on 4 March 2014 as non-executive Director.*

Report of the Directors

In accordance with Article 84 of the Articles of Association, Mr. Bartle van der Meer and Ms. Ng Siu Hung 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 2013 and up to the date of this report. The Company considers all of the INEDs to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or were in existence during the Year 2013.

DIRECTORS' SERVICE CONTRACTS

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

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

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Save for the related party transactions as set out in note 37 to the financial statements and the connected transactions as defined under the Listing Rules set out in the sections headed "Connected Transactions" and "Continuing Connected Transactions" below, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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

As at 31 December 2013 and as at the date of this report, the interests and short positions of the Directors and chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Name	Number of ordinary share	Nature of interest	Percentage of issued share capital
Mr. Yan Webin ("**Mr. Yan**") (i)	474,646,000	Interest of a controlled corporation	48.10%
Mr. Bartle van der Meer ("**Mr. van der Meer**") (ii)	213,125,000	Interest of a controlled corporation	21.60%

Notes:

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

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

Save as disclosed above, as at 31 December 2013 and as at the date of this report, none of the Directors and chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the COA Consideration Shares disclosed in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, at no time during the year 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 2013 and as at the date of this report, 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	Percentage of issued share capital
All Harmony (1)	107,000,000	Registered owner	10.84%
Brave Leader (2)	214,646,000	Registered owner	21.75%
Silver Castle (3)	60,000,000	Registered owner	6.08%
Ausnutria BVI (4)	200,000,000	Registered owner	20.27%
Mr. Chen Yuanrong ("**Mr. Chen**") (1)	107,000,000	Interest of a controlled corporation	10.84%
Mr. Wu Yueshi ("**Mr. Wu**") (2), (3), (4)	474,646,000	Interest of a controlled corporation	48.10%
Ms. Xiong Fanyi ("**Mrs. Wu**") (5)	474,646,000	Family interest	48.10%

Notes:

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

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

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

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

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

Save as disclosed above, as at 31 December 2013 and as at the date of this report, no person, other than the Directors, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

Summary of terms

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

(a) Purpose

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

(b) The participants

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

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

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

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

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

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

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

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

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

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

(c) Maximum number of Shares

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

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

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

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

(d) Maximum entitlement of each participant and connected persons

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

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

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

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

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

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

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

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

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

(f) ***Subscription price for Shares***

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

(g) ***Rights are personal to grantee***

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

(h) ***Time of exercise of option***

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

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

(i) ***Ranking of Shares***

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

(j) ***Period of the Share Option Scheme***

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

Present status of the Share Option Scheme

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

CONNECTED TRANSACTIONS

First Shareholder Loan Agreement

On 7 June 2013, Ausnutria (Dutch), as the lender, and Ausnutria Hyproca, as the borrower, and DDI entered into the shareholder loan agreement (the "**First Shareholder Loan Agreement**"), pursuant to which Ausnutria (Dutch) has provided the shareholder loan of EURO 7.0 million (equivalent to approximately RMB58.8 million) (the "**First Shareholder Loan**") to Ausnutria Hyproca, at the interest of 5% per annum payable half yearly in arrears. The term of the First Shareholder Loan shall be 12 months from the date of granting the shareholder loan, which can be extended for another 12 months subject to certain conditions as set out in the First Shareholder Loan Agreement.

On 5 June 2014, the conditions to extend the First Shareholder Loan have been fulfilled and the First Shareholder Loan is extended for another 12 months to 6 June 2015.

Second Shareholder Loan Agreement

On 1 November 2013, Ausnutria (Dutch), as the lender, and Ausnutria Hyproca, as the borrower, and DDI entered into the second shareholder loan agreement (the "**Second Shareholder Loan Agreement**") in relation to the granting of the second shareholder loan of EURO 10.0 million (equivalent to approximately RMB84.0 million) (the "**Second Shareholder Loan**") by Ausnutria (Dutch) to Ausnutria Hyproca to further meet the need of capital expenditure plan for expansion of the Ausnutria Hyproca Group. Terms of the Second Shareholder Loan Agreement are substantially the same as those of the First Shareholder Loan Agreement except for the amount and the date of granting of the Second Shareholder Loan.

As at the date of the above agreements, DDI held (i) 49% equity interests in Ausnutria Hyproca, which is an indirectly 51% owned subsidiary of the Company, and (ii) 11,000,000 Shares, representing approximately 1.11% of the issued Shares. In addition, Mr. van der Meer (together with his son) is indirectly interested in approximately 46.55% equity interests in DDI and is an executive Director and chief executive officer of the Company. Therefore, Mr. van der Meer, DDI and Ausnutria Hyproca are connected persons of the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the above agreements constitute connected transactions of the Company under the Listing Rules.

Details of the First Shareholder Loan and the Second Shareholder Loan are set out in the announcements of the Company dated 7 June 2013 and 5 November 2013, respectively.

CONTINUING CONNECTED TRANSACTIONS

During the Year 2013, the Company and the Group had the following continuing connected transactions, details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

On 1 November 2013, the Group entered into a framework supply agreement (the "**Framework Supply Agreement**") with Ausnutria Hyproca in respect of the supply of paediatric milk formula products by the Ausnutria Hyproca Group to the Ausnutria Group. The Framework Supply Agreement is for a term of two years from 1 November 2013 up to and including 31 December 2015 unless terminated earlier in accordance with the terms and conditions of the Framework Supply Agreement.

At the date of signing the Framework Supply Agreement, Mr. van der Meer was a connected person indirectly holding 49% equity interests in Ausnutria Hyproca and was appointed as an executive Director and chief executive officer of the Company on 7 June 2013. As such, the transaction contemplated under the Framework Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The INEDs have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

EY were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. EY have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions for the Year 2013 disclosed above in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

Saved as disclosed above, the Directors are not aware any related party transactions disclosed in note 37 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, which are subject to reporting, announcement and independent shareholder's approved requirements under Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the Year 2013 and up to the date of this report, the Ausnutria Hyproca Group supplies paediatric milk formula products not only to the Group but also to other distributors in the PRC. Further, the Ausnutria Hyproca Group also distributes dairy products worldwide including the PRC under its separate brand. As such. Mr. van der Meer, being an associate of Ausnutria Hyproca, is deemed to have a competing interest with the business of the Ausnutria Group by such reason.

Save as disclosed above, during the Year 2013 and up to date of this report, none of the Directors nor their respective associates had any businesses or interests which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

COMPLIANCE ADVISORS' INTEREST

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

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

SUFFICIENCY OF PUBLIC FLOAT

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 33 to 45 of this report.

EVENT AFTER THE REPORTING PERIOD

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

AUDITORS

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

On behalf of the Board

Yan Weibin
Chairman

Changsha City, the PRC
27 June 2014

Independent Auditors' Report

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

We have audited the consolidated financial statements of Ausnutria Dairy Corporation Ltd (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 60 to 148, which comprise the consolidated and company statements of financial position as at 31 December 2013, 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 a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

AUDITORS' RESPONSIBILITY (continued)

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

BASIS FOR QUALIFIED OPINION

As further explained in note 2.1 to the consolidated financial statements, issues in respect of certain sales transactions recorded by a subsidiary of the Company were identified by us in the prior year's audit. The Company had performed certain procedures to address the identified issues and as a result put through certain adjustments to its consolidated financial statements for the year ended 31 December 2012 and prior years. We were not able to perform satisfactory audit work on the adjustments that were put through to the consolidated financial statements for the year ended 31 December 2012 and prior years and accordingly, we were not able to express an audit opinion on the Group's profit and cash flows for the year ended 31 December 2012. Our opinion on the current year's consolidated financial statements is also modified because of the possible effect of this matter on the comparability of the current year's figures and the comparative information.

QUALIFIED OPINION

In our opinion, except for the possible effects on the comparative information of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
27 June 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
REVENUE	5	1,687,781	1,350,996
Cost of sales		(1,216,026)	(1,024,803)
Gross profit		471,755	326,193
Other income and gains	5	25,884	22,222
Selling and distribution expenses		(227,757)	(156,355)
Administrative expenses		(84,742)	(74,533)
Other expenses		(20,939)	(27,807)
Finance costs	7	(6,406)	(4,315)
Profit before tax	6	157,795	85,405
Income tax expense	10	(30,930)	(17,388)
PROFIT FOR THE YEAR		126,865	68,017
Attributable to:			
Owners of the parent	12	120,705	66,490
Non-controlling interests		6,160	1,527
		126,865	68,017
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– basic and diluted (RMB)	13	12.23 cents	6.74 cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
PROFIT FOR THE YEAR		126,865	68,017
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		2,889	5,153
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		2,889	5,153
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Remeasurement losses on defined benefit plan		(173)	–
Income tax effect		42	–
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		(131)	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		2,758	5,153
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		129,623	73,170
Attributable to:			
Owners of the parent	12	122,278	69,386
Non-controlling interests		7,345	3,784
		129,623	73,170

Details of the dividends proposed for the year are disclosed in note 11 to the financial statements.

Consolidated Statement of Financial Position

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	360,996	264,290
Prepaid land lease payments	15	2,085	2,142
Goodwill	16	85,495	84,466
Other intangible assets	17	33,526	30,107
Deferred tax assets	29	29,838	25,285
Total non-current assets		511,940	406,290
CURRENT ASSETS			
Inventories	19	315,653	190,935
Trade and bills receivables	20	175,647	141,297
Prepayments, deposits and other receivables	21	120,423	77,330
Held-to-maturity investment	22	–	60,000
Tax recoverable		8,582	9,797
Pledged deposits	27	213,000	–
Time deposits	23	496,295	420,000
Cash and cash equivalents	23	161,161	282,714
Total current assets		1,490,761	1,182,073
CURRENT LIABILITIES			
Trade payables	24	167,951	104,698
Other payables and accruals	25	256,553	229,654
Derivative financial instruments	26	716	1,129
Interest-bearing bank loans and other borrowings	27	259,986	95,555
Tax payable		37,484	9,524
Total current liabilities		722,690	440,560
NET CURRENT ASSETS		768,071	741,513
TOTAL ASSETS LESS CURRENT LIABILITIES		1,280,011	1,147,803

Consolidated Statement of Financial Position

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		1,280,011	1,147,803
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	27	36,852	39,007
Defined benefit plan	28	18,454	17,417
Deferred tax liabilities	29	30,239	27,552
Total non-current liabilities		85,545	83,976
Net assets		1,194,466	1,063,827
EQUITY			
Equity attributable to owners of the parent			
Issued capital	31	86,866	86,866
Reserves	32(a)	945,355	900,666
Proposed final dividend	11	77,589	–
		1,109,810	987,532
Non-controlling interests		84,656	76,295
Total equity		1,194,466	1,063,827

Mr. Yan Weibin
Executive Director

Mr. Chan Yuk Tong
Independent Non-executive Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2013

	Attributable to owners of the parent									
	Issued capital RMB'000 (note 31)	Share premium account RMB'000	Capital reserve RMB'000 (note 32(a))	Statutory surplus reserve RMB'000 (note 32(a))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000 (note 11)	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2013	86,866	533,856	14,310	43,612	(12,570)	321,458	–	987,532	76,295	1,063,827
Profit for the year	–	–	–	–	–	120,705	–	120,705	6,160	126,865
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations	–	–	–	–	1,640	–	–	1,640	1,249	2,889
Remeasurement losses on defined benefit plan, net of tax	–	–	–	–	–	(67)	–	(67)	(64)	(131)
Total comprehensive income for the year	–	–	–	–	1,640	120,638	–	122,278	7,345	129,623
Contribution from minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	1,016	1,016
Proposed final dividend	–	(77,589)	–	–	–	–	77,589	–	–	–
Transfer from retained profits	–	–	–	4,524	–	(4,524)	–	–	–	–
At 31 December 2013	86,866	456,267*	14,310*	48,136*	(10,930)*	437,572*	77,589	1,109,810	84,656	1,194,466

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

* These components of equity comprise the consolidated reserves of RMB945,355,000 (2012: RMB900,666,000) as at 31 December 2013 in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		157,795	85,405
Adjustments for:			
Finance costs	7	6,406	4,315
Interest income	5	(21,350)	(12,316)
Depreciation	6	32,172	29,389
Interest income on held-to-maturity investments	5	(2,564)	(5,809)
Amortisation of other intangible assets	6	5,788	5,858
Amortisation of prepaid land lease payments	6	57	57
Realised profits on sales to associates		–	(1,024)
Impairment of property, plant and equipment	6	1,850	–
Write-off of other intangible assets	6	–	127
Write-off of trade receivables	6	2,781	1,912
Write-down of inventories to net realisable value	6	1,030	27,086
Write-off of interests in associates	6	–	358
Remeasurement losses on defined benefit plan		(173)	–
		183,792	135,358
Decrease/(increase) in inventories		(122,708)	46,263
Decrease/(increase) in trade and bills receivables		(35,624)	36,078
Increase in prepayments, deposits and other receivables		(37,148)	(16,997)
Increase in trade payables		60,939	18,539
Increase/(decrease) in other payables and accruals		26,597	(27,825)
Cash generated from operations		75,848	191,416
Interest received		16,608	3,765
Interest paid		(6,251)	(4,361)
Mainland China corporate income tax paid		(4,176)	(6,915)
Overseas tax received/(paid)		594	(15,807)
Net cash flows from operating activities		82,623	168,098
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(126,735)	(40,294)
Proceeds from disposal of items of property, plant and equipment		83	–
Additions to other intangible assets		(8,761)	(2,471)
Proceeds from disposal of items of other intangible assets		200	–
Purchase of a held-to-maturity investment	22	–	(60,000)
Increase in time deposits		(496,295)	(420,000)
Increase in pledged time deposits		(213,000)	–
Maturity of time deposits		420,000	110,000
Interest income on held-to-maturity investments		2,564	6,137
Proceeds from disposal of associates		–	1,300
Proceeds received from a held-to-maturity investment		60,000	200,000
Net cash flows used in investing activities		(361,944)	(205,328)

Consolidated Statement of Cash Flows

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings		163,569	2,712
Repayment of bank loans		(3,708)	(3,664)
Repayment of other borrowings		(817)	(1,045)
Acquisition of non-controlling interests of a subsidiary		–	(22,994)
Contribution from non-controlling shareholders of a subsidiary		1,016	1,521
Interest element of finance lease rental payments		(573)	(21)
Net cash flows from/(used in) financing activities		159,487	(23,491)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(119,834)	(60,721)
Cash and cash equivalents at beginning of year		282,714	342,241
Effect of foreign exchange rate changes, net		(1,719)	1,194
CASH AND CASH EQUIVALENTS AT END OF YEAR		161,161	282,714
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	23	161,161	282,714

Statement of Financial Position

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	171,320	171,320
Total non-current assets		171,320	171,320
CURRENT ASSETS			
Prepayments, deposits and other receivables	21	531,481	555,942
Cash and cash equivalents	23	8,659	15,244
Total current assets		540,140	571,186
CURRENT LIABILITIES			
Other payables and accruals	25	33,671	31,150
Total current liabilities		33,671	31,150
NET CURRENT ASSETS		506,469	540,036
TOTAL ASSETS LESS CURRENT LIABILITIES		677,789	711,356
Net assets		677,789	711,356
EQUITY			
Issued capital	31	86,866	86,866
Reserves	32(b)	513,334	624,490
Proposed final dividend	11	77,589	–
Total equity		677,789	711,356

Mr. Yan Weibin
Executive Director

Mr. Chan Yuk Tong
Independent Non-executive Director

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2009. The registered office 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 in Mainland China, at Floor 9, XinDaXin Building, No. 168, HuangXing Road (M), Changsha City, Hunan Province; in Hong Kong, at Room 2101, Beautiful Group Tower, 77 Connaught Road Central, Central; and in the Netherlands, at Burgemeester Falkenaweg 58-1 (8442LE), Heerenveen. The shares of the Company were listed on The Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 8 October 2009.

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

2.1 BASIS OF PREPARATION

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

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

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

2.1 BASIS OF PREPARATION (continued)

The key findings of the PwC Review are:

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

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

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

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

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

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

2.1 BASIS OF PREPARATION (continued)

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

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

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

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

The Company estimated the adjustments required for revenue for the year ended 31 December 2011 and prior years using the total monetary amounts of sales orders received as recorded in the Order Books, after adjusting for those orders received around the respective year end dates to allow for the estimated timing of delivery to distributors. Regarding the cost of sales adjustments, the Company separately estimated the average gross margin rates which it considered to be reasonable for the year ended 31 December 2011 and prior years. Based on these estimations, the Management considered that RMB190 million adjustment to the accounts receivable should be adjusted to the accounts receivable at 31 December 2011 as a reduction of revenue and RMB53 million adjustment to inventory should be adjusted to the inventory at 31 December 2011 as a reduction of cost of sales, and RMB46 million adjustment on accounts receivable and RMB10 million adjustment on inventory should be adjusted in the consolidated financial statements for the year ended 31 December 2012 as reduction of revenue and cost of sales, respectively.

2.2 BASIS OF PRESENTATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2013. 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 in the accounting policy for subsidiaries below. 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.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 10, IFRS 11, and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance*
IFRS 13	*Fair Value Measurement*
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*
IAS 27 (Revised)	*Separate Financial Statements*
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012

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

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The principal effects of adopting IFRS 13 and IAS 19 are as follows:

(a) IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but rather provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. IFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in IFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by IFRS 13 for the fair value measurements of financial instruments are included in note 39 to the financial statements.

(b) IAS 19 Amendments change the accounting for defined benefit plans. The amendments remove the choice to defer the recognition of actuarial gains and losses. All actuarial gains and losses are required to be recognised immediately in other comprehensive income ("**OCI**"). The interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net interest amount under IAS 19 Amendments, which is calculated by applying the discount rate to the net defined benefit liability or asset at the start of each annual reporting period. Prior to the adoption of IAS 19 Amendments, the Group elected to recognise actuarial gains or losses as income or expense over the expected average remaining service periods of the employees participating in the defined benefit plan when the net cumulative unrecognised actuarial gains or losses for the plan at the end of the previous period exceeded 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. Upon the adoption of IAS 19 Amendments, all actuarial gains and losses are recognised in OCI immediately. As a result, all deferred actuarial gains and losses as at 1 January 2012 and 31 December 2012 and the actuarial gains and losses recognised in profit or loss for the year ended 31 December 2012 and 31 December 2011 should be recognised in OCI. In addition, the interest cost and expected return on plan assets recorded in 2012 should be replaced by a net interest amount.

Furthermore, upon the adoption of IAS 19 Amendments, all past service costs are recognised at the earlier of when an amendment/curtailment occurs and when the related restructuring or termination costs are recognised. As a result, unvested past service costs can no longer be deferred and recognised over the future vesting period. The impact on the balance of unrecognised service costs as at 1 January 2012 on retained profits as at 1 January 2012 and the amortisation of past service costs for the year ended 31 December 2012 was not material. IAS 19 Amendments also require more extensive disclosures which are included in note 28 to the financial statements.

Other than the changes to the accounting for defined benefit plans, IAS 19 Amendments also change the timing of recognition for termination benefits and the classification of short term employee benefits. The amendments require termination benefits outside of a wider restructuring to be recognised only when the offer becomes legally binding and cannot be withdrawn. Under the amendments, the distinction between short term and other long term employee benefits is now based on the expected timing of settlement rather than employee entitlement. As the Group does not have any significant employee benefits that are expected to be settled for more than twelve months after the reporting period or had no events giving rise to termination benefits, the changes to the accounting for these benefits have had no effect on the financial position or performance of the Group.

2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 9	*Financial Instruments*[4]
IFRS 9, IFRS 7, and IFRS 39 Amendments	*Hedge Accounting and amendments to IFRS 9, IFRS 7 and IFRS 39*[4]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities*[1]
IFRS 11 Amendments	Amendments to IFRS 11 *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*[3]
IFRS 14	*Regulatory Deferral Accounts*[3]
IFRS 15	*Revenue from Contracts with Customers*[5]
IAS 16 and IAS 38	Amendments to IAS 16 and IAS 38 – *Clarification of Acceptable Amendments Methods of Depreciation and Amortisation*[3]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
IAS 36 Amendments	Amendments to IAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*[1]
IAS 39 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
IFRIC 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of IFRS issued in December 2013[2]
Annual Improvements 2011-2013 Cycle	Amendments to a number of IFRS issued in December 2013[2]

1 Effective for annual periods beginning on or after 1 January 2014

2 Effective for annual periods beginning on or after 1 July 2014

3 Effective for annual periods beginning on or after 1 January 2016

4 No mandatory effective date yet determined but is available for adoption

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

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

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (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 results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

2.5 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 by the acquiree.

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

(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;

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

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

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

Property, plant and equipment and depreciation

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

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

Intangible assets (other than goodwill)

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

Non-patent technology

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

2.5 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 and held-to-maturity investments, 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:

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Held-to-maturity investments

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

Derecognition of financial assets

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first 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 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 and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

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

Assets carried at cost

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities, at initial recognition, 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.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

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 value 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents (continued)

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

Provisions

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

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

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

Income tax

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

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

Dividends

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

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

Employee benefits

Pension schemes

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined benefit plan

The Group operates a defined benefit pension plan which requires contributions to be made to a separately administered fund. The benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), 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

- net interest expense or income

Customer loyalty program

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is 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 are currencies other than the RMB. As at end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements

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

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.

Classification of held-to-maturity investments

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

Estimation uncertainly

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2013 was RMB85,495,000 (2012: RMB84,466,000). Further details are given in note 16.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainly (continued)

Impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of impairment requires management's judgements and estimates. Where the actual outcome is different from the original estimate, such differences will impact the carrying values of the trade receivables and impairment loss in the period in which such estimate has been changed. No impairment loss was recognised as at 31 December 2013 (2012: Nil). Further details are contained in note 20.

Deferred tax assets

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

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances. The depreciation provided for the year ended 31 December 2013 was RMB32,172,000 (2012: RMB29,389,000). Further details are contained in note 14.

Defined benefit plan

The Group operates a defined benefit plan. Pension costs for defined benefit plan are assessed using the projected unit credit method in accordance with IAS 19 Employee Benefits. Under this method, the cost of providing pensions is charged to profit or loss so as to spread the regular cost over the future service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plan. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the end of 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainly (continued)

Defined benefit plan (continued)

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

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

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments in 2013 as follows:

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

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

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

Segment assets exclude pledged deposits, cash and cash equivalents, a held-to-maturity investment, and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2013

	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	586,602	1,101,179	1,687,781
Intersegment sales	–	47,210	47,210
	586,602	1,148,389	1,734,991
Reconciliation:			
Elimination of intersegment sales			(47,210)
Revenue from operations			1,687,781
Segment results	147,518	23,507	171,025
Reconciliation:			
Elimination of intersegment results			(2,605)
Interest income			21,350
Finance costs			(6,406)
Corporate and other unallocated expenses			(25,569)
Profit before tax			157,795
Segment assets	269,932	842,949	1,112,881
Reconciliation:			
Elimination of intersegment receivables			(8,837)
Corporate and other unallocated assets			898,657
Total assets			2,002,701
Segment liabilities	124,201	396,033	520,234
Reconciliation:			
Elimination of intersegment payables			(8,837)
Corporate and other unallocated liabilities			296,838
Total liabilities			808,235
Other segment information			
Impairment losses recognised in profit or loss	2,781	2,880	5,661
Depreciation and amortisation	9,382	28,635	38,017
Capital expenditure*	9,319	126,177	135,496

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

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2012

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

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2013 RMB'000	2012 RMB'000
The PRC	878,180	640,421
European Union	567,854	510,842
Middle East	80,969	70,269
Others	160,778	129,464
	1,687,781	1,350,996

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

(b) Non-current assets

	2013 RMB'000	2012 RMB'000
The PRC	78,955	76,747
The Netherlands	403,147	304,258
	482,102	381,005

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 (2012: Nil).

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Note	2013 RMB'000	2012 RMB'000
Revenue			
Sale of goods		1,687,781	1,350,996
Other income and gains			
Interest income		21,350	12,316
Interest income on held-to-maturity investments		2,564	5,809
Government grants	(i)	1,426	996
Others		544	3,101
Total other income and gains		25,884	22,222

(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:

	Notes	2013 RMB'000	2012 RMB'000
Cost of inventories sold		1,214,996	997,717
Write-down of inventories to net realisable value		1,030	27,086
Cost of sales		1,216,026	1,024,803
Depreciation	14	32,172	29,389
Amortisation of lease prepayments for land use rights	15	57	57
Amortisation of other intangible assets	17	5,788	5,858
Research and development costs		16,937	11,761
Minimum lease payments under operating leases:			
Buildings		3,241	2,440
Foreign exchange differences, net*		1,079	167
Provision for claims from customers*		–	9,028
Write-off of other intangible assets*		–	127
Write-off of trade receivables*		2,781	1,912
Write-off of interests in associates*		–	358
Impairment of property, plant and equipment*		1,850	–
Auditors' remuneration		4,766	6,238
Advertising and promotion expenses		83,962	68,320
Professional fees*		11,243	14,074
Employee benefit expenses (including directors' remuneration) (note 8):			
Wages, salaries and staff welfare		174,463	121,881
Pension scheme contributions**		15,331	14,329
		189,794	136,210

* The write-off of interests in associates, write-off of trade receivables, write-off of intangible assets, foreign exchange differences, impairment of property, plant and equipment, provision for claims from customers and professional fees in relation to the Unresolved Issues are included in other expenses in the consolidated statement of profit or loss and other comprehensive income.

** At 31 December 2013, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2012: Nil).

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2013 RMB'000	2012 RMB'000
Interest on bank loans, overdrafts and other loans	6,251	4,361
Interest on finance leases	573	21
Total interest expense on financial liabilities not at fair value through profit or loss	6,824	4,382
Unrealised gain on an interest rate swap (note 26)	(418)	(67)
	6,406	4,315

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Group	
	2013 RMB'000	2012 RMB'000
Fees	2,157	1,779
Other emoluments:		
Salaries, allowances and benefits in kind	1,682	2,511
Pension scheme contributions	16	21
	1,698	2,532
	3,855	4,311

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

(a) Independent non-executive directors

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

	2013 RMB'000	2012 RMB'000
Qiu Weifa	96	81
Jason Wan	96	81
Chan Yuk Tong	1,487	1,293
	1,679	1,455

Save for the payment of a fee to Mr. Chan Yuk Tong commencing since March 2012 for the capacity as the member of the special review committee (the "**SRC**") to assist on the follow-up of the Unresolved Issues, there were no other emoluments payable to the independent non-executive directors during the year (2012: Nil). The total emoluments paid to Mr. Chan Yuk Tong for acting as the member of the SRC amounted to RMB1,200,000 for the year (2012: RMB1,000,000).

(b) Executive directors, a non-executive director and the chief executive

	Notes	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2013					
Executive directors:					
Wu Yueshi	(i)	60	–	–	60
Chen Yuanrong	(ii)	60	214	4	278
Yan Weibin	(iii)	96	191	–	287
Bartle van der Meer	(iv)	83	966	–	1,049
Ng Siu Hung		96	311	12	419
		395	1,682	16	2,093
Non-executive director:					
Dai Li	(v)	83	–	–	83
		478	1,682	16	2,176

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

(b) Executive directors, a non-executive director and the chief executive (continued)

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2012: Nil).

Notes:

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

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

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

(iv) Mr. Bartle van der Meer ("**Mr. van der Meer**") was appointed as an executive director and the chief executive officer with effect from 7 June 2013. Prior to his appointment, Mr. van der Meer received a monthly salary and allowance from Ausnutria Hyproca of a total of EUR14,000 (2012: EUR14,000).

(v) Mr. Dai Li ("**Mr. Dai**") was appointed as a non-executive director on 7 June 2013. Subsequent to the end of the reporting period, on 4 March 2014, Mr. Dai resigned as a non-executive director of the Company.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2012: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2012: four) non-director, highest paid employees for the year are as follows:

	Group	
	2013 RMB'000	2012 RMB'000
Salaries, allowances and benefits in kind	4,355	6,126
Pension scheme contributions	520	352
Total	4,875	6,478

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

	Number of employees	
	2013	2012
Nil to HK$1,000,000	–	–
HK$1,000,001 to HK$1,500,000	–	–
HK$1,500,001 to HK$2,000,000	1	3
HK$2,000,001 to HK$2,500,000	2	1
Total	3	4

Among the three (2012: four) highest paid employees, two (2012: three) were attributable to the Ausnutria Hyproca Group which has become a subsidiary of the Group since 17 October 2011.

10. INCOME TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2012: 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.

Ausnutria China was designated as a High-tech Enterprise from 2010, and was granted a preferential CIT tax rate of 15% for the three years ended 31 December 2012. In March 2014, the application for the renewal of the designation of Ausnutria China as a High-tech Enterprise has been approved and Ausnutria China is granted the preferential CIT tax rate of 15% for another three years ending 31 December 2015.

	Group	
	2013 RMB'000	2012 RMB'000
Current charge for the year – Mainland China		
Charge for the year	35,101	19,631
Overprovision in prior years	(2,706)	–
Current charge for the year – The Netherlands		
Charge for the year	527	(352)
(Overprovision)/underprovision in prior years	(74)	2,002
Deferred (note 29)	(1,918)	(3,893)
Total tax charge for the year	30,930	17,388

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:

Group – 2013

	Hong Kong		The Netherlands		Mainland China		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	(2,301)		7,435		171,199		(18,538)		157,795	
Income tax at the statutory income tax rate	(380)	16.5	1,775	23.9	42,800	25.0	–	–	44,195	28.0
Tax effects on preferential tax rates	–	–	–	–	(16,067)	(9.4)	–	–	(16,067)	(10.2)
Non-deductible items and others, net	–	–	1,067	14.3	1,143	0.7	–	–	2,210	1.4
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiary	–	–	–	–	5,556	3.2	–	–	5,556	3.5
Additional deduction of expenses	–	–	(2,724)	(36.6)	(548)	(0.3)	–	–	(3,272)	(2.1)
Tax losses not recognised	380	(16.5)	–	–	–	–	–	–	380	0.3
Tax losses utilised from previous periods	–	–	708	9.5	–	–	–	–	708	0.5
Adjustments in respect of current tax in previous periods	–	–	(74)	(1.0)	(2,706)	(1.6)	–	–	(2,780)	(1.8)
Tax charge at the Group's effective rate	–	–	752	10.1	30,178	17.6	–	–	30,930	19.6

Group – 2012

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

11. DIVIDENDS

	2013 RMB'000	2012 RMB'000
Proposed final – HK0.10 (2012: Nil) per ordinary share	77,589	–

The proposed final dividend for the year to be paid out of the Company's share premium account is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2013 includes a loss of RMB17,459,000 (2012: RMB19,514,000) which has been dealt with in the financial statements of the Company (note 32(b)).

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 986,843,000 (2012: 986,843,000) in issue during the year.

Earnings

	2013 RMB'000	2012 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	120,705	66,490

Shares

	2013	2012
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	986,843,000	986,843,000

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2013 and 2012 in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during those years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2013							
At 31 December 2012 and 1 January 2013:							
Cost	155,633	116,141	5,647	11,471	11,186	9,679	309,757
Accumulated depreciation and impairment	(12,697)	(25,825)	(3,476)	(905)	(2,564)	–	(45,467)
Net carrying amount	142,936	90,316	2,171	10,566	8,622	9,679	264,290
At 1 January 2013, net of accumulated depreciation and impairment	142,936	90,316	2,171	10,566	8,622	9,679	264,290
Additions	6,108	51,325	193	3,981	1,789	63,339	126,735
Disposals	–	(30)	–	(53)	–	–	(83)
Depreciation provided during the year	(10,845)	(15,981)	(1,131)	(2,841)	(1,374)	–	(32,172)
Impairment provided during the year	–	(1,557)	–	–	(293)	–	(1,850)
Transfers to other intangible assets (note 17)	–	–	–	–	–	(296)	(296)
Exchange realignment	1,098	1,701	–	96	(6)	1,483	4,372
At 31 December 2013, net of accumulated depreciation and impairment	139,297	125,774	1,233	11,749	8,738	74,205	360,996
At 31 December 2013:							
Cost	163,117	167,216	5,840	15,518	12,009	74,205	437,905
Accumulated depreciation and impairment	(23,820)	(41,442)	(4,607)	(3,769)	(3,271)	–	(76,909)
Net carrying amount	139,297	125,774	1,233	11,749	8,738	74,205	360,996

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Land and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012							
At 31 December 2011 and 1 January 2012:							
Cost	144,274	92,352	5,585	11,247	11,146	5,590	270,194
Accumulated depreciation	(4,551)	(8,982)	(2,417)	(1,401)	(1,224)	–	(18,575)
Net carrying amount	139,723	83,370	3,168	9,846	9,922	5,590	251,619
At 1 January 2012, net of accumulated depreciation and impairment	139,723	83,370	3,168	9,846	9,922	5,590	251,619
Additions	2,594	21,868	62	4,873	–	10,897	40,294
Transfers to other intangible assets (note 17)	–	–	–	(1,884)	–	(49)	(1,933)
Depreciation provided during the year	(8,135)	(16,472)	(1,059)	(2,383)	(1,340)	–	(29,389)
Transfers	6,909	–	–	–	40	(6,949)	–
Exchange realignment	1,845	1,550	–	114	–	190	3,699
At 31 December 2012, net of accumulated depreciation and impairment	142,936	90,316	2,171	10,566	8,622	9,679	264,290
At 31 December 2012:							
Cost	155,633	116,141	5,647	11,471	11,186	9,679	309,757
Accumulated depreciation and impairment	(12,697)	(25,825)	(3,476)	(905)	(2,564)	–	(45,467)
Net carrying amount	142,936	90,316	2,171	10,566	8,622	9,679	264,290

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The net carrying amount of the Group's fixed assets held under finance leases included in the total amount of machinery at 31 December 2013 amounted to EUR125,000 (equivalent to approximately RMB1,052,000 (2012: EUR240,000, equivalent to approximately RMB1,996,000).

At 31 December 2013, certain of the Group's land and buildings, and plant and equipment that were attributed to the Ausnutria Hyproca Group and located in the Netherlands with net carrying amounts of EUR8,484,000 (equivalent to approximately RMB71,426,000) (2012: EUR8,204,000, equivalent to approximately RMB68,238,000) and EUR22,085,000 (equivalent to approximately RMB185,934,000) (2012: EUR10,777,000, equivalent to approximately RMB89,639,000), respectively, were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 27(b)).

The Group's land included in property, plant and equipment with a net carrying amount of EUR2,157,000 (equivalent to approximately RMB18,163,000) (2012: EUR2,157,000, equivalent to approximately RMB17,944,000) is situated in the Netherlands and is held as freehold land.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2013 RMB'000	2012 RMB'000
Carrying amount at 1 January	2,199	2,256
Recognised during the year	(57)	(57)
Carrying amount at 31 December	2,142	2,199
Current portion included in prepayments, deposits and other receivables	(57)	(57)
Non-current portion	2,085	2,142

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

16. GOODWILL

	Group	
	2013 RMB'000	2012 RMB'000
At 1 January:		
Cost	84,466	82,891
Accumulated impairment	–	–
Net carrying amount	84,466	82,891
Cost at 1 January, net of accumulated impairment	84,466	82,891
Exchange realignment	1,029	1,575
Cost at 31 December, net of accumulated impairment	85,495	84,466
At 31 December:		
Cost	85,495	84,466
Accumulated impairment	–	–
Net carrying amount	85,495	84,466

Impairment testing of goodwill

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

Product cash-generating unit

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

Assumptions were used in the fair value less costs to sell calculation of the product cash-generating unit for 31 December 2013. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

Product cash-generating unit (continued)

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

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

17. OTHER INTANGIBLE ASSETS

Group

	Non-patent technology RMB'000	Trademarks RMB'000	Software RMB'000	Milk collection right RMB'000	Others RMB'000	Total RMB'000
31 December 2013						
Cost at 1 January 2013, net of accumulated amortisation	457	697	11,505	16,895	553	30,107
Additions	3,582	525	3,346	–	1,308	8,761
Transfers from property, plant and equipment (note 14)	–	–	296	–	–	296
Disposals	–	–	–	–	(200)	(200)
Amortisation provided during the year	(133)	(219)	(2,905)	(2,522)	(9)	(5,788)
Exchange realignment	80	7	81	151	31	350
At 31 December 2013	3,986	1,010	12,323	14,524	1,683	33,526
At 31 December 2013:						
Cost	4,632	1,369	21,355	20,309	1,712	49,377
Accumulated amortisation	(646)	(359)	(9,032)	(5,785)	(29)	(15,851)
Net carrying amount	3,986	1,010	12,323	14,524	1,683	33,526

17. 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 2012						
Cost at 1 January 2012, net of accumulated amortisation	316	542	11,203	19,197	47	31,305
Additions	241	449	1,317	–	464	2,471
Impairment during the year	–	(127)	–	–	–	(127)
Transfers from property, plant and equipment (note 14)	–	–	1,884	–	49	1,933
Amortisation provided during the year	(106)	(170)	(2,954)	(2,609)	(19)	(5,858)
Exchange realignment	6	3	55	307	12	383
At 31 December 2012	457	697	11,505	16,895	553	30,107
At 31 December 2012:						
Cost	969	835	17,564	20,065	572	40,005
Accumulated amortisation	(512)	(138)	(6,059)	(3,170)	(19)	(9,898)
Net carrying amount	457	697	11,505	16,895	553	30,107

18. INVESTMENTS IN SUBSIDIARIES

	2013 RMB'000	2012 RMB'000
Unlisted shares, at cost	171,320	171,320

The amount due from and to subsidiaries included in the Company's current assets and current liabilities of RMB530,740,000 (2012: RMB555,309,000) and RMB30,853,000 (2012: RMB30,823,000), respectively, are unsecured, interest-free and have no fixed terms of repayment.

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Name	Place 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	
Spring Choice Limited	British Virgin Islands	US$200	100	–	Investment holding
Ausnutria Dairy Co., Ltd.	Hong Kong	HK$1	–	100	Investment holding
Ausnutria Australia Dairy Pty Ltd.	Australia	AU$500,000	–	100	Investment holding
Ausnutria China*	The PRC/ Mainland China	RMB68,633,832	–	100	Production, marketing and distribution of paediatric nutrition products in Mainland China
Ausnutria Dairy (HK) Company Limited	Hong Kong	HK$100	–	100	Marketing and distribution of paediatric nutrition products in Hong Kong
Ausnutria Dairy (Dutch) Coöperatief U.A	The Netherlands	EUR13,800,000	–	100	Investment holding
Ausnutria Hyproca B.V.	The Netherlands	EUR4,086,000	–	51	Investment holding
Hyproca Nutrition Co., Ltd.**	The PRC/ Mainland China	RMB10,000,000	–	43.4#	Marketing and distribution of goat milk based nutrition products in the PRC
Hyproca Dairy***	The Netherlands	EUR18,200	–	51#	Manufacture of nutrition products
Lypack***	The Netherlands	EUR18,151	–	51#	Processing and packaging of nutrition products
Hyproca Nutrition***	The Netherlands	EUR725,358	–	51#	Marketing and distribution of goat milk based nutrition products

18. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary shares/ registered capital	Percentage of equity interest attributable to the Group Direct	Indirect	Principal activities
Hyproca Lyempf***	The Netherlands	EUR21,500	–	51#	Manufacture of nutrition products
Neolac (Shanghai) Nutrition Co. Ltd.*	The PRC/ Mainland China	RMB10,000,000	–	51#	Trading of nutrition products in Mainland China
Hyproca Nutrition East Limited	Hong Kong/Russia	HK$4,000,000	–	26#	Trading of nutrition products in Russia
Hyproca Nutrition Middle East FZCO	Dubai	AED1,500,000	–	30.6#	Trading of nutrition products

* Wholly-foreign-owned enterprise

** Sino-foreign equity joint venture

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

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

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

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

Except for the consolidated financial statements of Ausnutria Hyproca B.V. for the years ended 31 December 2013 and 2012 which were audited by Ernst & Young, Netherlands, , none of the statutory audited financial statements of the above subsidiaries were audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

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

18. INVESTMENTS IN SUBSIDIARIES (continued)

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

	2013	2012
Percentage of equity interest held by non-controlling interests:		
Hyproca Lyempf	49%	49%
Lypack	49%	49%

	2013 RMB'000	2012 RMB'000
Profit/(loss) for the year allocated to non-controlling interests:		
Hyproca Lyempf	(3,851)	11,510
Lypack	10,399	(12,417)
Accumulated balances of non-controlling interests at the reporting dates:		
Hyproca Lyempf	20,341	24,192
Lypack	2,806	(7,593)

18. INVESTMENTS IN SUBSIDIARIES (continued)

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

2013	Hyproca Lyempf RMB'000	Lypack RMB'000
Revenue	389,920	496,735
Total expenses	(397,779)	(475,513)
Profit/(loss) for the year	(7,859)	21,222
Total comprehensive income/(loss) for the year	(7,859)	21,222
Current assets	110,462	174,470
Non-current assets	124,714	43,905
Current liabilities	(160,698)	(229,954)
Non-current liabilities	(3,255)	(8,941)
Net cash flows from/(used in) operating activities	44,736	(59,962)
Net cash flows used in investing activities	(30,979)	(23,774)
Net cash flows from/(used in) financing activities	(13,757)	83,732
Net decrease in cash and cash equivalents	–	(4)

2012	Hyproca Lyempf RMB'000	Lypack RMB'000
Revenue	340,454	355,472
Total expenses	(316,965)	(380,814)
Profit/(loss) for the year	23,489	(25,342)
Total comprehensive income/(loss) for the year	23,489	(25,342)
Current assets	112,243	89,669
Non-current assets	103,408	24,539
Current liabilities	(107,051)	(146,658)
Non-current liabilities	(30,300)	(9,247)
Net cash flows from operating activities	15,435	48,079
Net cash flows used in investing activities	(20,781)	(24,022)
Net cash flows from/(used) in financing activities	5,346	(24,074)
Net decrease in cash and cash equivalents	–	(17)

19. INVENTORIES

	Group 2013 RMB'000	Group 2012 RMB'000
Raw materials	154,771	74,899
Finished goods	156,885	114,261
Others	3,997	1,775
Total	315,653	190,935

At 31 December 2013, certain of the Group's inventories that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR24,142,000 (equivalent to approximately RMB203,249,000) (2012: EUR16,567,000, equivalent to approximately RMB137,798,000) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 27(b)).

As at 31 December 2013, a batch of finished goods with cost of RMB1,030,000 (2012: RMB27,086,000) was considered as obsolete. A full provision was made as at 31 December 2013 and recognised as an expense for inventories carried at net realisable value in cost of sales. Fair value less costs to sell of this batch of finished goods was Nil (2012: Nil).

20. TRADE AND BILLS RECEIVABLES

	Group 2013 RMB'000	Group 2012 RMB'000
Trade receivables	140,528	122,615
Bills receivable	35,119	18,682
Total	175,647	141,297

The Group normally allows a credit period from 1 to 12 months (2012: 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.

20. TRADE AND BILLS RECEIVABLES (continued)

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

	2013 RMB'000	2012 RMB'000
Within 3 months	105,426	107,476
3 to 6 months	16,762	6,927
6 months to 1 year	18,044	4,648
Over 1 year	296	3,564
Total	140,528	122,615

There was no provision for impairment as at 31 December 2013 (2012: Nil). The carrying amounts of the trade and bills receivables approximate to their fair values.

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

	2013 RMB'000	2012 RMB'000
Neither past due nor impaired	118,678	109,735
Within 3 months past due	19,511	11,023
3 months to 1 year past due	2,339	1,857
Total	140,528	122,615

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

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

At 31 December 2013, certain of the Group's trade receivables that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR13,260,000 (equivalent to approximately RMB111,635,000) (2012: EUR7,388,000, equivalent to approximately RMB61,450,000) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 27(b)).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2013	2012	2013	2012
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments to suppliers		46,703	33,105	–	–
Due from subsidiaries	18	–	–	530,740	555,309
Due from a former director	37(a)	–	251	–	–
Insurance claims		18,127	1,633	–	–
Interest income receivable		14,594	9,853	–	–
Other tax recoverable		11,296	10,073	–	–
Others		29,703	22,415	741	633
		120,423	77,330	531,481	555,942

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

22. HELD-TO-MATURITY INVESTMENT

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

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

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

		Group		Company	
		2013	2012	2013	2012
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances		161,161	282,714	8,659	15,244
Time deposits		709,295	420,000	–	–
		870,456	702,714	8,659	15,244
Less: Pledged deposits	27(b)	(213,000)	–	–	–
Non-pledged time deposits with maturity of between 3 months to 12 months		(496,295)	(420,000)	–	–
Cash and cash equivalents in the consolidated statement of financial position		161,161	282,714	8,659	15,244

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB144,169,000 (2012: RMB248,204,000). 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.

24. TRADE PAYABLES

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

	Group	
	2013 RMB'000	2012 RMB'000
Within 12 months	167,942	104,689
Over 12 months	9	9
	167,951	104,698

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

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Advances from customers	44,941	87,679	–	–
Deferred income	70,128	46,897	–	–
Deposits	15,547	13,266	–	–
Due to subsidiaries	–	–	30,853	30,823
Accrued salaries and welfare	25,338	21,742	–	3
Other tax payables	14,705	4,003	–	–
Provision for claims from customers*	8,915	9,028	–	–
Other payables	36,995	28,586	2,818	324
Accruals	39,984	18,453	–	–
	256,553	229,654	33,671	31,150

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

* During the year ended 31 December 2012, one of the suppliers (the "**Supplier**") of the Ausnutria Hyproca Group notified the Ausnutria Hyproca Group that one of the raw materials that was previously delivered by the Supplier might have been contaminated. The entire balance represented provision made by Ausnutria Hyproca Group for compensation that might have to be paid to customers.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2013 RMB'000	2012 RMB'000
Interest rate swaps entered into by the Ausnutria Hyproca Group	716	1,129

The Ausnutria Hyproca Group has entered into various interest rate swap contracts to manage its interest rate exposures. These interest rate swaps are measured at fair value through profit or loss. A net fair value gain on these interest rate swaps amounting to RMB413,000 (2012: gain of RMB46,000) was recognised in profit or loss for the year ended 31 December 2013.

27. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

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

Group

	2013			2012		
	Annual effective interest rate (%)	Maturity	RMB'000	Annual effective interest rate (%)	Maturity	RMB'000
Current						
Finance lease payables (note 30)	3.0	2014	427	3.0	2013	761
Bank overdrafts – secured	1 month Euribor + 2.0	2014	171,581	1 month Euribor + 2.0	2013	91,051
Bank loan – secured	3 month Euribor + 1.8	2014	84,189	–	–	–
Current portion of long-term bank loans – secured	4.45*	2014	2,105	4.45*	2013	2,079
	1 month Euribor + 2.0	2014	1,684	1 month Euribor + 2.0	2013	1,664
			259,986			95,555
Non-current						
Finance lease payables (note 30)	3.0	2015	264	3.0	2015	746
Bank loans – secured	4.45*	2017	6,314	4.45*	2017	8,318
Bank loans – secured	1 month Euribor + 2.0	2017	28,624	1 month Euribor + 2.0	2017	29,943
Other loans – unsecured	3 month Euribor + 3.0	2017	1,650	–	–	–
			36,852			39,007
			296,838			134,562

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

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

	Group	
	2013 RMB'000	2012 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	259,559	94,794
In the second year	3,788	3,743
In the third to fifth years, inclusive	31,150	11,229
Beyond five years	–	23,289
	294,497	133,055
Other borrowings repayable:		
Within one year or on demand	427	761
In the second year	264	746
In the third to fifth years, inclusive	1,650	–
	2,341	1,507
	296,838	134,562

Notes:

(a) The Group's bank overdraft facilities that were attributed to the Ausnutria Hyproca Group amounting to EUR21,000,000 (equivalent to approximately RMB176,797,000) (2012: EUR12,975,000, equivalent to approximately RMB107,921,000), of which EUR20,380,000 (equivalent to approximately RMB171,581,000) (2012: EUR10,947,000, equivalent to approximately RMB91,051,000) had been utilised as at 31 December 2013.

(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 EUR8,484,000 (equivalent to approximately RMB71,426,000) (2012: EUR8,204,000 (equivalent to approximately RMB68,238,000));

(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 EUR22,085,000 (equivalent to approximately RMB185,934,000) (2012: EUR10,777,000 (equivalent to approximately RMB89,639,000));

(iii) pledges of the Ausnutria Hyproca Group's inventories, which had an aggregate carrying value at the end of the reporting period of EUR24,142,000 (equivalent to approximately RMB203,249,000) (2012: EUR16,567,000 (equivalent to approximately RMB137,798,000));

(iv) pledges of the Ausnutria Hyproca Group's trade receivables, which had an aggregate carrying value at the end of the reporting period of EUR13,260,000 (equivalent to approximately RMB111,635,000) (2012: EUR7,388,000 (equivalent to approximately RMB61,450,000)); and

(v) pledges of certain of the Group's time deposits amounting to RMB213,000,000 (2012: Nil).

(c) All borrowings are denominated in EUR.

28. DEFINED BENEFIT PLAN

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

The 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 at 31 December 2013 by the appraiser, using the projected unit credit actuarial valuation method.

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

	2013	2012
Discount rate (%)	3.00	2.70
Expected rate of future pension cost increases (%)	1.50	1.50
Expected rate of salary increases (%)	2.50	2.50

The actuarial valuation showed that the market value of plan assets was RMB19,912,000 (2012: RMB17,334,000) and that the actuarial value of these assets represented 51.9% (2012: 49.9%) of the benefits that had accrued to qualifying employees. The deficiency of RMB18,454,000 (2012: RMB17,417,000) is expected to be cleared over the remaining service period of 16 (2012: 17) years.

28. DEFINED BENEFIT PLAN (continued)

A quantitative sensitivity analysis for significant assumptions as at 31 December 2013 is shown below:

	Increase in rate	**Increase/ (decrease) in net defined benefit obligation**	**Decrease in rate**	**Increase/ (decrease) in net defined benefit obligation**
	%	RMB'000	%	RMB'000
Discount rate	0.5	(4,024)	0.5	4,715
Future salary increase	0.5	943	0.5	(884)
Future pension cost increase	0.5	(497)	0.5	547

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

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

	2013 RMB'000	2012 RMB'000
Current service cost	1,615	1,221
Interest cost	708	3,843
Net benefit expenses	2,323	5,064
Recognised in cost of sales	1,376	1,189
Recognised in administrative expenses	947	3,875
	2,323	5,064

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

	2013 RMB'000	2012 RMB'000
At 1 January	34,751	29,124
Current service cost	1,615	1,221
Interest cost	1,508	3,745
Exchange differences on a foreign plan	492	661
At 31 December	38,366	34,751

28. DEFINED BENEFIT PLAN (continued)

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

2013

	Pension cost charged to profit or loss					Remeasurement gains/(losses) in other comprehensive income							
	1 January 2013 RMB'000	Service cost RMB'000	Net interest 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 2013 RMB'000
Defined benefit obligations	(34,751)	(1,615)	(939)	(2,554)	667	–	(1,236)	–	–	(1,236)	–	(492)	(38,366)
Fair value of plan assets	17,334	–	231	231	(667)	–	1,063	–	–	1,063	1,689	262	19,912
Benefit liability	(17,417)	(1,615)	(708)	(2,323)	–	–	(173)	–	–	(173)	1,689	(230)	(18,454)

2012

	Pension cost charged to profit or loss					Remeasurement gains/(losses) in other comprehensive income							
	1 January 2012 RMB'000	Service cost RMB'000	Net interest 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 2012 RMB'000
Defined benefit obligations	(29,124)	(1,221)	(4,510)	(5,731)	765	–	–	–	–	–	–	(661)	(34,751)
Fair value of plan assets	15,917	–	667	667	(765)	–	–	–	–	–	1,189	326	17,334
Benefit liability	(13,207)	(1,221)	(3,843)	(5,064)	–	–	–	–	–	–	1,189	(335)	(17,417)

The actual return in plan assets for 2013 amounted to RMB1,549,000 (2012: RMB716,000).

The fair value of the total plan assets at 31 December 2013 is RMB19,912,000 (2012: RMB17,334,000).

Expected contributions to be made in the future years out of the defined benefit obligations are as follows:

	2013 RMB'000	2012 RMB'000
Within the next 12 months	1,583	1,214
Between 2 and 5 years	6,903	6,679
Between 5 and 10 years	1,726	3,410
Total expected payments	10,212	11,303

The average duration of the defined benefit obligation at the end of the reporting period is 22.8 (2012: 22.8 years) years.

29. DEFERRED TAX

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

Deferred tax liabilities

Group

	2013				
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Milk collection rights RMB'000	Withholding taxes RMB'000	Total RMB'000
31 December 2013					
At 1 January 2013	6,874	13,378	1,117	6,183	27,552
Deferred tax charged/(credited) to profit or loss during the year (note 10)	(1,063)	(1,723)	(277)	5,556	2,493
Exchange difference	61	125	8	–	194
Gross deferred tax liabilities at 31 December 2013	5,872	11,780	848	11,739	30,239

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

29. DEFERRED TAX (continued)

Deferred tax assets

Group

	2013						
	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 2013							
At 1 January 2013	4,180	8,966	26	3,381	7,564	1,168	25,285
Deferred tax credited/(charged) to profit or loss during the year (note 10)	152	(1,830)	–	2,859	4,196	(966)	4,411
Deferred tax charged to equity during the year	42	–	–	–	–	–	42
Exchange difference	55	52	–	–	–	(7)	100
Gross deferred tax assets at 31 December 2013	4,429	7,188	26	6,240	11,760	195	29,838

	2012						
	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 2012							
At 1 January 2012	3,306	9,994	297	2,917	6,090	292	22,896
Deferred tax credited/(charged) to profit or loss during the year (note 10)	794	(1,188)	(271)	464	1,474	850	2,123
Exchange difference	80	160	–	–	–	26	266
Gross deferred tax assets at 31 December 2012	4,180	8,966	26	3,381	7,564	1,168	25,285

29. DEFERRED TAX (continued)

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.

The Group has tax losses arising in Hong Kong, and the Netherlands of RMB4,807,000 (2012: RMB2,506,000), and RMB7,931,000 (2012: RMB7,931,000), respectively, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law 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% (2012: 10%).

As at 31 December 2013, the Group has not recognised deferred tax liabilities of RMB37,464,000 (2012: RMB29,685,000) in respect of temporary differences relating to the unremitted earnings of subsidiaries, amounting to RMB374,635,000 (2012: RMB296,849,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

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

30. FINANCE LEASE PAYABLES

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

At 31 December 2013, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments 2013 RMB'000	Minimum lease payments 2012 RMB'000	Present value of minimum lease payments 2013 RMB'000	Present value of minimum lease payments 2012 RMB'000
Amounts payable:				
Within one year	460	774	427	761
In the second year	269	768	264	746
Total minimum finance lease payments	729	1,542	691	1,507
Future finance charges	(38)	(35)		
Total net finance lease payables	691	1,507		
Portion classified as current liabilities (note 27)	(427)	(761)		
Non-current portion (note 27)	264	746		

31. SHARE CAPITAL

Shares

	2013 HK$'000	2012 HK$'000
Authorised:		
1,500,000,000 (2012: 1,500,000,000) ordinary shares of HK$0.10 each	150,000	150,000

	2013		2012	
	HK$'000	RMB'000 equivalent	HK$'000	RMB'000 equivalent
Issued and fully paid:				
986,843,000 (2012: 986,843,000) ordinary shares of HK$0.10 each	98,684	86,866	98,684	86,866

During the year, there was no movement in share capital (2012: Nil).

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 64 to 65 of the financial statements.

(i) Capital reserve

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

(ii) Statutory surplus reserve

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

32. RESERVES (continued)

(b) Company

	Share premium RMB'000	Capital reserve* RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 1 January 2012	533,856	171,320	(5,889)	(55,419)	643,868
Total comprehensive loss for the year	–	–	(19,514)	136	(19,378)
At 31 December 2012 and 1 January 2013	533,856	171,320	(25,403)	(55,283)	624,490
Total comprehensive loss for the year	–	–	(17,459)	(16,108)	(33,567)
Proposed final 2013 dividend (note 11)	(77,589)	–	–	–	(77,589)
At 31 December 2013	456,267	171,320	(42,862)	(71,391)	513,334

* 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.

33. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities (2012: Nil).

34. 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 14, 17, 19, 20 and 27, respectively, to the financial statements.

35. OPERATING LEASE ARRANGEMENTS

As lessee

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

	2013 RMB'000	2012 RMB'000
Within one year	2,390	2,069
In the second to fifth years, inclusive	4,254	2,701
	6,644	4,770

As at the end of the reporting period, the Company did not have future minimum lease payments under non-cancellable operating leases (2012: Nil).

36. COMMITMENTS

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

	Group	
	2013 RMB'000	2012 RMB'000
Contracted, but not provided for:		
Plant and machinery	23,331	10,583
Leasehold improvements	–	1,260
	23,331	11,843

At the end of the reporting period, the Company did not have any significant commitments (2012: Nil).

37. RELATED PARTY TRANSACTIONS

(a) Balance with a related party

	Note	2013 RMB'000	2012 RMB'000
An amount due from Mr. Chen	21	–	251

The balance represented the loan granted to the then executive director and chief executive officer of the Company and Ausnutria China, Mr. Chen, which was unsecured, bore interest at 5% per annum and was fully settled during the year. The maximum outstanding balance due from Mr. Chen during the year was RMB251,000 (2012: RMB643,000).

(b) Compensation of key management personnel of the Group

	2013 RMB'000	2012 RMB'000
Salaries, allowances and benefits in kind	15,530	17,066
Retirement benefit contributions	1,313	891
Total compensation paid to key management personnel	16,843	17,957

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

38. FINANCIAL INSTRUMENTS BY CATEGORY

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

2013

Financial assets

	Group
	Loans and receivables RMB'000
Trade and bills receivables	175,647
Financial assets included in prepayments, deposits and other receivables	32,721
Pledged deposits	213,000
Time deposits	496,295
Cash and cash equivalents	161,161
	1,078,824

Financial liabilities

	Group		
	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	167,951	167,951
Financial liabilities included in other payables and accruals	–	61,457	61,457
Derivative financial instruments	716	–	716
Interest-bearing bank loans and other borrowings	–	296,838	296,838
	716	526,246	526,962

38. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

2012

Financial assets

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

Financial liabilities

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

38. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

2013

Financial assets

	Company Loans and receivables RMB'000
Due from subsidiaries	530,740
Financial assets included in prepayments, deposits and other receivables	6
Cash and cash equivalents	8,659
	539,405

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Due to subsidiaries	30,853
Financial liabilities included in other payables and accruals	2,775
	33,628

38. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

2012

Financial assets

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

Financial liabilities

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

39. 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 bill receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, and amounts due from/to subsidiaries 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 and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Group

	Carrying amounts		Fair values	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Financial liabilities				
Derivative financial instruments	716	1,129	716	1,129
Interest-bearing bank loans and other borrowings	296,838	134,562	294,234	124,656
	297,554	135,691	294,950	125,785

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team 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 2013 was assessed to be insignificant.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with ABN-AMRO Bank N.V. Derivative financial instruments, including interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. 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.

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

As at 31 December 2013, the marked to market value of the derivative asset position is 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 2013

	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	–	716	–	716

As at 31 December 2012

	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	–	1,129	–	1,129

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 (2012: Nil).

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Interest rate risk

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

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

Group

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2013		
EUR	100	(6,131)
EUR	(100)	6,131
2012		
EUR	100	(2,980)
EUR	(100)	2,980

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

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

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

	Increase/ (decrease) in foreign exchange rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity**
	%	RMB'000	RMB'000
2013			
If RMB weakens against HK$	5%	325	100
If RMB strengthens against HK$	(5%)	(325)	(100)
If RMB weakens against the EUR	5%	–	(9,092)
If RMB strengthens against the EUR	(5%)	–	9,092
2012			
If RMB weakens against HK$	5%	776	93
If RMB strengthens against HK$	(5%)	(776)	(93)
If RMB weakens against the EUR	5%	–	(145)
If RMB strengthens against the EUR	(5%)	–	145

Credit risk

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

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

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

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

Liquidity risk

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

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

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

Group

	2013					
	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	–	161,343	6,599	9	–	167,951
Finance lease payables	–	–	460	269	–	729
Financial liabilities included in other payables and accruals	28,640	32,817	–	–	–	61,457
Derivative financial instruments	–	716	–	–	–	716
Interest-bearing bank loans and other borrowings	–	–	269,731	40,095	–	309,826
Total	28,640	194,876	276,790	40,373	–	540,679

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Group

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

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

Company

	2013		
	On demand RMB'000	Less than 3 months RMB'000	Total RMB'000
Due to subsidiaries	30,853	–	30,853
Financial liabilities included in other payables and accruals	–	2,818	2,818
Total	30,853	2,818	33,671

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

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

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 2013 and 31 December 2012.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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

	2013 RMB'000	2012 RMB'000
Interest-bearing bank loans and other borrowings	296,838	134,562
Trade payables	167,951	104,698
Other payables and accruals	256,553	229,654
Less: Pledged deposits	(213,000)	–
Time deposits	(496,295)	(420,000)
Cash and cash equivalents	(161,161)	(282,714)
Net debt	(149,114)	(233,800)
Equity attributable to owners of the parent	1,109,810	987,532
Equity and net debt	960,696	753,732
Gearing ratio	N/A	N/A

41. EVENT AFTER THE REPORTING PERIOD

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

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

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

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 June 2014.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements (as restated when appropriate), is set out below.

	Year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	1,687,781	1,350,996	629,214	513,890	545,584
Cost of sales	(1,216,026)	(1,024,803)	(409,742)	(250,710)	(277,224)
Gross profit	471,755	326,193	219,472	263,180	268,360
Other income and gains	25,884	22,222	25,976	21,520	6,898
Selling and distribution expenses	(227,757)	(156,355)	(127,318)	(174,449)	(91,947)
Administrative expenses	(84,742)	(74,533)	(44,446)	(21,584)	(10,565)
Other expenses	(20,939)	(27,807)	(19,493)	(20,367)	(41)
Finance costs	(6,406)	(4,315)	(1,436)	(1,369)	(4,184)
Share of profits/(losses) of associates	–	–	5,006	(104)	–
Gain on remeasurement of interests upon acquisition	–	–	14,126	–	–
PROFIT BEFORE TAX	157,795	85,405	71,887	66,827	168,521
Income tax expense	(30,930)	(17,388)	(21,453)	(6,877)	(26,288)
PROFIT FOR THE YEAR	126,865	68,017	50,434	59,950	142,233
Attributable to:					
Owners of the parent	120,705	66,490	44,275	59,950	142,223
Non-controlling interests	6,160	1,527	6,159	–	–
	126,865	68,017	50,434	59,950	142,223

Five Year Financial Summary

	As at 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	2,002,701	1,588,363	1,537,490	1,203,638	1,656,108
Total liabilities	(808,235)	(524,536)	(526,863)	(158,070)	(615,422)
Net assets	1,194,466	1,063,827	1,010,627	1,045,568	1,040,686
Non-controlling interests	(84,656)	(76,295)	(83,385)	–	–
	1,109,810	987,532	927,242	1,045,568	1,040,686