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)

2014
Interim Report

Contents

Corporate Information

BOARD OF DIRECTORS

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

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
Mr. Qiu Weifa
Mr. Jason Wan

NOMINATION COMMITTEE

Mr. Yan Weibin *(Chairman)*
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 ADVISERS (As to Hong Kong law)

King & Wood Mallesons

COMPLIANCE ADVISER

Asian Capital (Corporate Finance) Limited

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS

In Mainland China

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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.
Bank of China (Luxembourg) S.A., Rotterdam Branch

STOCK CODE

1717

COMPANY'S WEBSITE

www.ausnutria.com.hk

Management Discussion and Analysis

RESUMPTION OF TRADING

The board (the "**Board**") of directors (the "**Directors**") of Ausnutria Dairy Corporation Ltd (the "**Company**") is pleased to announce that, upon fulfilling all the resumption conditions imposed by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (details of which are set out in the announcement of the Company dated 3 July 2012), trading in the shares of the Company (the "**Shares**") was resumed on 4 August 2014.

The Board would like to assure the shareholders of the Company (the "**Shareholders**") and the potential investors that the Board is committed to (i) supervising the management of the Company and its subsidiaries (the "**Group**") and to maintain sound and effective internal controls to safeguard the Shareholders' investment and the Group's assets; and (ii) continuously and proactively strengthening the corporate governance of the Company to establish a solid foundation for the operation and future growth while learning the lesson from the incidence leading to the suspension of trading in the Shares in order to maximise the value of the Company and hence the return to the Shareholders.

BUSINESS REVIEW

The global dairy market has continued to grow over the past few years, particularly in the People's Republic of China (the "**PRC**") which is 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 steadily 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 (i) the raising of the standards on the grant/renewal of the production license of the paediatric milk powder manufacturers in the PRC; (ii) 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 (iii) 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 six-month period ended 30 June 2014 (the "**2014 Interim Period**") continues 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 as distributors in the PRC were more conservative in placing their orders pending for further clarity on the implementation of the New Policies. In May 2014, the PRC government announced the first batch of 115 imported brands, including all the brands (including the series of Allnutria, Best Choice, Hyproca 1897, Kabrita, Puredo, Mygood, Eurolate and Neolac) of the Group, that have been granted the approval for importing the paediatric formula milk into the PRC. Sales and operating performance of the Group's own branded business have been gradually improving since then. The Company has taken strategic moves to comply with the New Policies and at the same time to upgrade its facilities such as the spray towers in Lyempf Kampen B.V. and packing facilities in Lypack Leeuwarden B.V. so as to increase the Group's upstream production and procurement capability in order to capture the growing markets in the PRC and overseas.

Management Discussion and Analysis

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. In 2013, the Group granted two shareholders' loans to the Ausnutria Hyproca Group of a total of EURO 17.0 million (equivalent to approximately RMB142.8 million) (the "**Shareholders' Loans**") for the financing of the capital expenditure plans, including but not limited to the acquisition of approximately 140,000 square meters of land in Heerenveen, the Netherlands for the intended construction of a new factory and the upgrade of the milk powder spray towers and the purchases of new machineries for the increase in blending and 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 CAPEX Plan was substantially completed in June 2014. 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 2014 Interim Period, the Group recorded revenue of approximately RMB937.0 million, representing an increase of approximately RMB139.7 million, or approximately 17.5%, when compared with the six-month period ended 30 June 2013 (the "**2013 Interim Period**"). Despite there was a temporary interruption in the production of the Ausnutria Hyproca Group as a result of the CAPEX Plan as some of the production facilities have been temporary suspended for production for a few months in the 2014 Interim Period, turnover of the Ausnutria Hyproca Group increased by approximately 30.5% to approximately RMB672.2 million for the 2014 Interim Period. The increase in turnover was mainly driven by (i) the continuous increase in demand of the dairy products produced by the Ausnutria Hyproca Group as a result of the renowned quality of milk produced in the Netherlands; (ii) the good quality standards of the products produced by the Ausnutria Hyproca Group; and (iii) the overall increase in production volume after the CAPEX Plan was gradually completed in the 2014 Interim Period when compared with the 2013 Interim Period. The increase in turnover of the Ausnutria Hyproca Group was partly offset by the decrease in turnover of the Group (excluding the Ausnutria Hyproca Group) (the "**Ausnutria Group**") to approximately RMB264.8 million, representing a decrease of approximately RMB17.4 million, or approximately 6.2%, when compared with the 2013 Interim Period, as a result of the temporary impact of the New Policies.

The Group's gross profit was approximately RMB270.3 million for the 2014 Interim Period, representing an increase of approximately RMB37.6 million or 16.1% over approximately RMB232.7 million for the 2013 Interim Period. The Group's gross profit margin for the 2014 Interim Period remained relatively stable at 28.8% when compared with that for the 2013 Interim Period, being 29.2%.

Despite more marketing and promotion activities have been invested by the Group during the 2014 Interim Period, the growth in turnover and profitability was negatively affected by the temporary impact of the New Policies and the CAPEX Plan which has a temporary impact on both the productivity and production efficiency of the Ausnutria Hyproca Group. The Group's profit attributable to ordinary equity holders of the parent decreased by approximately 14.7% to approximately RMB53.5 million and the basic earnings per share was approximately RMB5.42 cents, representing a decrease of approximately RMB0.93 cents over the 2013 Interim Period.

Upstream business

The Company has taken strategic moves to build the Group's upstream production and procurement capability and to capture the markets opportunities globally, particularly in the PRC, by acquiring an aggregate of 51% equity interests in Ausnutria Hyproca, which has international presence and expertise in the international paediatric nutritional products, since 2011 (the "**Acquisition**").

The Ausnutria Hyproca Group was established since 1897 and commenced its business with the manufacture of butter in Ommen in the Netherlands. In 1928, the Ausnutria Hyproca Group commenced the production of milk powder. Through a series of merges and acquisitions over the past years, the Ausnutria Hyproca Group has developed into a medium size company in the dairy industry in the Netherlands and owns three factories, all of which are located in the Netherlands, and all these three factories were among the first batch of registered overseas dairy products producers that were granted the registrations for importing their products into the PRC under the New Policies as further explained below. As a result of the Acquisition, the Group possesses the entire production chain from the collection of milk to processing of milk powder, blending and packaging in the Netherlands to distribution to its customers in the PRC and overseas. The products are totally controlled by the Group throughout the entire production and distribution process which the Group believes as one of the key requirements under the New Policies and accordingly a critical success factor for dairy industry in the long run.

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.

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., were 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
Lyempf Kampen B.V.	Other milk powder

The granting of the registrations 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.

Management Discussion and Analysis

To facilitate the further integration of the business of the Ausnutria Hyproca Group into the Group, 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 can be exercised within 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. Details of the COA were set out in the announcement of the Company dated 7 June 2013.

Owing to the unavailability of the recently published audit reports 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 had exercised its right to extend the call option for another 12-month period to 6 June 2015 in accordance with the terms of the COA as mentioned above. Further details regarding the extension of the call option are set out in the announcement of the Company dated 9 June 2014.

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

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 accelerate the consolidation of the paediatric milk powder industry and eventually lead to the elimination of the 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.

On 14 March 2014, Ausnutria Dairy (China) Co., Ltd ("**Ausnutria China**") completed the renewal review process of its production license and 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 granting of the production license are set out in the announcement of the Company dated 24 March 2014.

The New Policies have created uncertainties and temporary interruption on the dairy industry in the PRC, including the Group, as distributors were 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 the 2014 Interim Period, the Directors believe 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.

With all the certification and approvals obtained by the Group under the requirements of the New Policies and the full production and distribution chain owned by the Group, the Company believes that it is well positioned to seize the opportunities.

OUTLOOK

During the visit of the PRC President Xi Jinping to the Netherlands in March 2014, a joint statement was 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 abovementioned subsidiaries will create more opportunities and increase the competitiveness which will 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:

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

In prior years, the Group invested in the new information systems (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 ordering products 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. The Group will continue to enhance the New IT Systems to cater for the change in the sales model globally, particularly in the PRC, where consumers are changing their purchasing patterns by making use of the applications in the smartphones to gain access to the latest product information and/or placing orders, etc.

Management Discussion and Analysis

Continuing the strategy of upward integration

The Board believes that the ability to ensure a stable supply of quality 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 supply of quality infant formula milk products 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 the Shareholders' Loans to finance the CAPEX Plan, including but not limited to the acquisition of approximately 140,000 square meters of land in Heerenveen, the Netherlands for the intended construction of a new factory and the upgrade of the milk powder spray towers and the purchases of new machineries for the increase in blending and packaging capacity of the Ausnutria Hyproca Group.

Though the CAPEX Plan has led to a temporary interruption to the production of the Ausnutria Hyproca Group as the two milk spray towers were temporarily suspended from production for a few months in 2013 and 2014 which has resulted in a short term pressure on the 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 was substantially completed in June 2014. The Company is now taking active steps to streamline the production of these facilities in order to maximise the productivity. The Group expects that the annualised production capacity of milk powder by the two spray towers will exceed 30,000 tons when the production is expected to be normalised by end of this year after going through the trial run periods.

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 introduced Kabrita Series products in the PRC since the fourth quarter of 2011. In the same year and 2012, the Group entered into agreements with the Medical School of Beijing University for conducting a series of clinical trials of Kabrita products, the results of which have concluded that goat milk-based powder is a good alternative to cow milk-based powder in a number of different aspects, including nutrition, digestion and the development of immune system, etc.

In October 2013, the Group approved the conducting of the clinical trials for the application of the approval from the Food and Drug Administration ("**FDA**") for the sale of Kabrita Series products in the United States.

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

For the 2014 Interim Period, the overall sales of Kabrita Series products show triple digit growth from the 2013 Interim Period.

Despite the increasing market competition of paediatric nutritional products in the world, particularly in the PRC, and the more stringent rules and regulations imposed by the PRC government which has created uncertainties and a temporary interruption on the dairy industry in the PRC, including the Group, and has resulted in a slowdown in the operating performance of the Group in the first few months of 2014, the Directors believe that the Group's operation has returned to normal and the Board believes that the Group is well positioned to face the challenges ahead and is optimistic about its future.

FINANCIAL REVIEW

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

Revenue

	Six months ended 30 June	
	2014	2013
	RMB'M	RMB'M
	(Unaudited)	(Unaudited)
REVENUE		
– Ausnutria Group	**264.8**	282.2
– Ausnutria Hyproca Group	**704.9**	524.3
	969.7	806.5
Less: Intersegment sales	**(32.7)**	(9.2)
– The Group	**937.0**	797.3

For the 2014 Interim Period, the Group recorded revenue of approximately RMB937.0 million, representing an increase of approximately RMB139.7 million, or approximately 17.5%, from RMB797.3 million for the 2013 Interim Period.

Revenue – Ausnutria Group

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. The new products, namely, Puredo and Hyproca 1897, that were launched in June 2012 and April 2013 respectively, also contributed to the revenue of the Ausnutria Group for the 2014 Interim Period.

Owing to the impact of the New Policies, which has resulted in a short term pressure in the sales for the first few months in 2014 as distributors in the PRC were more conservative in placing their orders pending for further clarity on the implementation of the New Policies, revenue of the Ausnutria Group decreased by 6.2% to approximately RMB264.8 million when compared with same period of last year.

Management Discussion and Analysis

In May 2014, the AQSIQ announced 115 imported brands, including all the brands of the Group, were granted the approval for importing the paediatric formula milk into the PRC. Sales and operating performance of the Ausnutria Group have been gradually improving since then.

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 brands 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 also commenced the sale of Kabrita Series products (mainly on stage 3 of infant formula and goat milk based Yogurt) in the United States in August 2014. The Ausnutria Hyproca Group is one of the leading producers and distributors of goat milk products in the world.

Despite there was a temporary interruption in the production of the Ausnutria Hyproca Group as a result of the implementation of the CAPEX Plan as some of the production facilities have been temporary suspended for production for a few months in the 2014 Interim Period, turnover (before elimination of intersegment sales) of the Ausnutria Hyproca Group increased by approximately 34.4% to approximately RMB704.9 million for the 2014 Interim Period. The increase in the revenue of the Ausnutria Hyproca Group for the 2014 Interim Period was primarily attributed to (i) the continuous increase in the revenue of Kabrita in the PRC from approximately RMB62.8 million for the 2013 Interim Period to approximately RMB114.4 million for the 2014 Interim Period; (ii) the increase in the production volume as the CAPEX Plan was gradually completed during the 2014 Interim Period; and (iii) 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 Group in 1897.

Gross profit and gross margin

	Six months ended 30 June		Six months ended 30 June	
	2014	2013	**2014**	2013
	RMB'M	RMB'M	**%**	%
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Ausnutria Group	**146.8**	153.5	**55.4**	54.4
Ausnutria Hyproca Group	**123.5**	79.2	**18.4**	15.4
The Group	**270.3**	232.7	**28.8**	29.2

The Group's gross profit for the 2014 Interim Period was approximately RMB270.3 million, representing an increase of approximately RMB37.6 million, or approximately 16.1%, when compared with the 2013 Interim Period. The increase in the gross profit margin of the Ausnutria Group was mainly attributable to the increase in the contribution of sales by Hyproca 1897 Series products. Hyproca 1897 Series of the Ausnutria Group was launched in April 2013 and has since become one of the most premium brands with highest gross profit margin. The increase in the gross profit margin of the Ausnutria Hyproca Group for the 2014 Interim Period was mainly attributable to the proportionate increase in sales contributed by the own branded (Kabrita) business with comparatively much higher gross profit margin than the OEM and private label businesses.

Other income and gains

Other income and gains mainly represented interest income from the Group's deposits with banks of approximately RMB10.8 million (2013 Interim Period: approximately RMB10.0 million), grants from the government in the PRC and proceeds from the sale of scraps.

Selling and distribution expenses

	Six months ended 30 June	
	2014	2013
	RMB'M	RMB'M
	(Unaudited)	(Unaudited)
Ausnutria Group	**70.0**	67.9
Ausnutria Hyproca Group	**75.0**	42.0
	145.0	109.9

Selling and distribution expenses mainly comprised advertising and promotion expenses, salaries and travelling costs of the sales and marketing staff and delivery costs. Selling and distribution expenses represented approximately 15.5% and 13.8% of revenue for the 2014 Interim Period and the 2013 Interim Period, respectively.

The selling and distribution expenses of the Ausnutria Group for the 2014 Interim Period increased by approximately 2.3 percentage points to 26.4% of its revenue when compared with the 2013 Interim Period. The increase in selling and distribution expenses of the Ausnutria Group was mainly due to the launch of a new series of cow milk infant formula, namely, Hyproca 1897 Series, in April 2013. The Group incurred additional marketing and promotion costs, including the setting up of a new sales division, for the introduction and promotion of Hyproca 1897 Series.

The selling and distribution expenses of the Ausnutria Hyproca Group represented approximately 10.6% (2013 Interim Period: approximately 8.0%) of the Ausnutria Hyproca Group's revenue (before elimination of intersegment sales) for the 2014 Interim Period. Included in the selling and distribution expenses of the Ausnutria Hyproca Group, approximately 56.4% (2013 Interim Period: approximately 58.3%) related to the sales and marketing of Kabrita in the PRC.

The increase in selling and distribution expenses of the Ausnutria Hyproca Group was mainly due to (i) the increase in air freight charges as a result of the temporary interruption in the production of the Ausnutria Hyproca Group caused by the CAPEX Plan, the Ausnutria Hyproca Group has delivered some of the orders by air in order to meet the demand of the customers; and (ii) the increase in sales of the Ausnutria Hyproca Group, particularly the own branded (Kabrita) business.

Administrative expenses

	Six months ended 30 June	
	2014	2013
	RMB'M	RMB'M
	(Unaudited)	(Unaudited)
Ausnutria Group	**23.3**	26.1
Ausnutria Hyproca Group	**30.4**	18.0
The Group	**53.7**	44.1

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

The increase in the Group's administrative expenses was primarily attributed to (i) the increase in the staff and related costs as a result of the continuous increase in headcounts of the Ausnutria Hyproca Group to cope with its business expansion; (ii) the increase in insurance charges to cover the increasing in assets value of the Ausnutria Hyproca Group; and (iii) the increase in office expenses as a result of the establishment of a number of subsidiaries in overseas for the promotion of the Ausnutria Hyproca Group's own branded business. The increase was partly offset by the decrease in professional fees incurred by the Ausnutria Group for the 2014 Interim Period.

Other expenses

Other expenses for the 2014 Interim Period mainly comprised legal and professional fees incurred as a result of certain unresolved issued leading to the suspension of trading in the Shares on the Stock Exchange (the "**Unresolved Issues**") of a total of approximately RMB5.9 million (2013 Interim Period: approximately RMB6.4 million).

Finance costs

The finance costs of the Group's for the 2014 Interim Period amounted to approximately RMB5.9 million (2013 Interim Period: approximately RMB2.9 million), representing the interest on bank and other borrowings that were primarily used for the financing of the daily working capital and capital expenditures of the Ausnutria Hyproca Group.

The increase in finance costs was mainly due to the drawdown of the two one-year term loans of a total of EURO 20.0 million (equivalent to approximately RMB167.9 million) by Ausnutria (Dutch) for the financing of the CAPEX Plan of the Ausnutria Hyproca Group.

Income tax expenses

The profits generated by the Group were mainly derived from its operations in the PRC and the Netherlands. Under the PRC income tax laws, enterprises are subject to corporate income tax (the "**CIT**") at a rate of 25%. Ausnutria China was designated as a High-tech Enterprise and was granted a preferential CIT tax rate of 15% for the three years ending 31 December 2015. 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.

The Group's effective tax rate for the 2014 Interim Period was 18.1%, representing an increase of approximately 1.6 percentage points when compared with the 2013 Interim Period. During the 2013 Interim Period, Ausnutria China received a tax refund of approximately RMB2.7 million relating to profit tax charged in the prior years. The increase in the effective tax rate was mainly attributable to the impact of the tax refund and the increase in proportion of profit contributed by the other operating subsidiary established in the PRC for the sale of Kabrita products for the 2014 Interim Period which are subject to the standard CIT rate of 25%.

Profit attributable to equity holders of the Company

The Group's profit attributable to equity holders of the Company for the 2014 Interim Period amounted to approximately RMB53.5 million (2013 Interim Period: approximately RMB62.7 million), representing a decrease of approximately 14.7% when compared with the 2013 Interim Period. The decrease in net profit was mainly due to (i) the increase in the selling and distribution expenses by approximately RMB35.1 million to approximately RMB145.0 million for the promotion of own branded infant formula; and (ii) the increase in administrative expenses as a result of the increase in the scale of operations of the Ausnutria Hyproca Group.

Management Discussion and Analysis

Analysis on Condensed Consolidated Statement of Financial Position

Non-current assets

As at 30 June 2014, the total non-current assets of the Group amounted to approximately RMB621.6 million (31 December 2013: approximately RMB511.9 million), mainly comprised property, plant and equipment of approximately RMB468.2 million (31 December 2013: approximately RMB361.0 million), goodwill arising from the acquisition of Ausnutria Hyproca of approximately RMB85.2 million (31 December 2013: approximately RMB85.5 million), other intangible assets of approximately RMB33.3 million (31 December 2013: approximately RMB33.5 million) and deferred tax assets of approximately RMB32.8 million (31 December 2013: approximately RMB29.8 million).

The increase in the non-current assets of the Group as at 30 June 2014 was principally due to the increase in property, plant and equipment of the Ausnutria Hyproca Group as part of its continuous production expansion plan mainly for the increase in the production capacity of milk powder and the blending and packaging capacity in order to cope with the increasing in demand for its products from the worldwide customers. Other non-current assets position of the Group as at 30 June 2014 remained fairly stable when compared with that as at 31 December 2013.

Current assets

As at 30 June 2014, the total current assets of the Group amounted to approximately RMB1,692.9 million (31 December 2013: approximately RMB1,490.8 million), mainly comprised inventories of approximately RMB489.1 million (31 December 2013: approximately RMB315.7 million), trade receivables of approximately RMB128.8 million (31 December 2013: approximately RMB140.5 million), bills receivables of approximately RMB33.9 million (31 December 2013: approximately RMB35.1 million), pledged deposits of RMB216.9 million (31 December 2013: RMB213.0 million), time deposits with banks in the PRC of RMB250.0 million (31 December 2013: RMB496.3 million) and cash and cash equivalents of approximately RMB442.8 million (31 December 2013: approximately RMB161.2 million).

The increase in the total current assets of the Group was mainly due to the increase in inventories of the Ausnutria Hyproca Group as at 30 June 2014 when compared with that as at 31 December 2013.

Inventories

	30 June 2014 RMB'M (Unaudited)	31 December 2013 RMB'M (Audited)
Ausnutria Group	134.5	90.4
Ausnutria Hyproca Group	354.6	225.3
The Group	489.1	315.7

The increase in inventories was mainly attributable to (i) the increase in the scale of productions of the Ausnutria Hyproca Group; (ii) the change in the business model of the Ausnutria Hyproca Group by allocating more of its production capacity from trading of milk powder to the development of own branding business which requires the Ausnutria Hyproca Group to maintain a certain level of inventory to meet the growing demand of its customers; (iii) the impact of the New Policies which requires a more detail and longer quality testing procedures before the import of dairy products into the PRC; and (iv) the impact of the New Policies which has caused a temporary interruption in the sales of the Ausnutria Group in the PRC.

The inventory turnover days of the Ausnutria Group and the Ausnutria Hyproca Group as at 30 June 2014 was approximately 174 days (31 December 2013: approximately 93 days) and approximately 96 days (31 December 2013: approximately 71 days), respectively.

Trade and bills receivables

	30 June 2014 RMB'M (Unaudited)	31 December 2013 RMB'M (Audited)
Trade receivables		
– Ausnutria Group	21.6	28.0
– Ausnutria Hyproca Group	107.2	112.5
	128.8	140.5
Bills receivable	33.9	35.1
	162.7	175.6

The trade receivable turnover days of the Ausnutria Group and the Ausnutria Hyproca Group as at 30 June 2014 was approximately 17 days (31 December 2013: approximately 20 days) and approximately 30 days (31 December 2013: approximately 33 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, Ausnutria (Dutch) granted the Shareholders' Loans for the financing of the CAPEX Plan of the Ausnutria Hyproca Group. In view that most of the funds 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 RMB216.9 million (31 December 2013: RMB213.0 million) to obtain the bank facilities in Europe for the financing of the Shareholders' Loans.

The increase in pledged deposits was due to interest income of approximately RMB3.9 million derived from the pledged deposits during the 2014 Interim Period.

Time deposits and cash and cash equivalents

As at 30 June 2014, the Group's cash and bank balances and time deposits amounted to approximately RMB692.8 million (31 December 2013: approximately RMB657.5 million) which remained to be stable and maintained at a healthy level.

Current liabilities

As at 30 June 2014, the total current liabilities of the Group amounted to approximately RMB955.5 million (31 December 2013: approximately RMB722.7 million), mainly comprised trade payables of approximately RMB269.4 million (31 December 2013: approximately RMB168.0 million), other payables and accruals of approximately RMB310.7 million (31 December 2013: approximately RMB256.6 million) and interest-bearing bank loans and other borrowings of approximately RMB341.0 million (31 December 2013: approximately RMB260.0 million).

Trade payables

	30 June 2014 RMB'M (Unaudited)	31 December 2013 RMB'M (Audited)
Ausnutria Group	7.3	16.0
Ausnutria Hyproca Group	262.1	152.0
The Group	269.4	168.0

The increase in trade payables as at 30 June 2014 was mainly due to the increase in purchase to cope with the increase in sales of the Group and the increase in average credit terms granted by the suppliers for the 2014 Interim Period.

The trade payable turnover days of the Ausnutria Group and the Ausnutria Hyproca Group as at 30 June 2014 was approximately 18 days (31 December 2013: approximately 16 days) and approximately 69 days (31 December 2013: approximately 47 days), respectively, was in line with the credit terms granted by the suppliers of the Group.

Interest-bearing bank loans and other borrowings

The interest-bearing bank loans and other borrowings as at 30 June 2014 and 31 December 2013 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 30 June 2014 was mainly due to the drawdown of another one-year term loan by Ausnutria (Dutch) of EURO 10.0 million (equivalent to approximately RMB83.9 million) for the financing of the CAPEX Plan of the Ausnutria Hyproca Group as set out in the announcement of the Company dated 5 November 2013. In 2013, the Ausnutria (Dutch) has also drawdown of a one-year term loan of EURO 10.0 million (equivalent to approximately RMB84.0 million) for the financing of the CAPEX Plan as set out in the announcement of the Company dated 7 June 2013.

Non-current liabilities

As at 30 June 2014, the total non-current liabilities of the Group amounted to approximately RMB106.2 million (31 December 2013: approximately RMB85.5 million), comprised interest-bearing bank loans and other borrowings of approximately RMB58.6 million (31 December 2013: approximately RMB36.9 million), accruals for defined benefit plan of approximately RMB18.4 million (31 December 2013: approximately RMB18.5 million) and deferred tax liabilities of approximately RMB29.2 million (31 December 2013: approximately RMB30.2 million).

The increase in interest-bearing bank loans and other borrowings was mainly due to the drawdown of additional bank loans for the financing of the CAPEX Plan.

There were no significant changes in the other non-current liabilities position of the Group as at 30 June 2014 when compared with 31 December 2013.

Non-controlling interests

As at 30 June 2014 and 31 December 2013, the balance mainly represented the 49% equity interests in Ausnutria Hyproca owned by DDI and the minority equity interests of the subsidiaries established in the overseas countries for the distribution of Kabrita Series products.

Other Information

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

There were no material investments and acquisitions and disposals of subsidiaries and associated companies during the 2014 Interim Period.

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGE OF ASSETS

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

	Note	30 June 2014 RMB'M (Unaudited)	31 December 2013 RMB'M (Audited)
Cash and cash equivalents		**442.8**	161.2
Time deposits		**250.0**	496.3
Total bank loans and other borrowings		**399.7**	296.8
Total assets		**2,314.5**	2,002.7
Gearing ratio	1	**17.3%**	14.8%

Note:

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

As at 30 June 2014, the Group had pledged the land and buildings, plant and machineries, inventories and trade receivables that were owned by the Ausnutria Hyproca Group with a total carrying value of EURO 93.4 million, equivalent to approximately RMB783.7 million (31 December 2013: approximately EURO 68.0 million, equivalent to approximately RMB572.2 million) and the time deposits that were attributable to the Ausnutria Group of RMB216.9 million (31 December 2013: RMB213.0 million) for the banking facilities granted to the Group for the financing of the daily working capital and the CAPEX Plan of the Ausnutria Hyproca Group.

FOREIGN EXCHANGE RISK

The operations of the Group are mainly carried out in the PRC and the Netherlands. During the 2014 Interim Period, 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 period 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.

CREDIT RISK

The Group seeks to maintain strict control over its outstanding receivables and closely monitors the collection to minimise 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, pledged deposits, 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 30 June 2014, the Group, as lessee, had total future minimum lease payments under non-cancellable operating leases amounting to approximately RMB5.7 million (31 December 2013: approximately RMB6.6 million).

As at 30 June 2014, the Group had contracted, but not provided for, capital commitments in respect of purchase of plant and machineries mainly for the CAPEX Plan of approximately RMB9.6 million (31 December 2013: approximately RMB23.3 million).

CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any significant contingent liabilities (31 December 2013: Nil).

Other Information

USE OF PROCEEDS

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

The use of the Net IPO Proceeds from the global offering up to 30 June 2014 was as follows:

	As stated in the prospectus* HK$'000	Utilised HK$'000	Balance as at 31 December 2013 HK$'000	Utilised HK$'000	**Balance as at 30 June 2014 HK$'000**
Invest in upstream operations	246,930	(192,776)	54,154	(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	(10,038)	**23,990**
Introduce new series of organic paediatric nutrition products	82,310	(61,346)	20,964	–	**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	(64,192)	**44,954**

The unused Net IPO Proceeds 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 Company dated 24 September 2009 (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	Others	Total
30 June 2014					
Ausnutria Group	696	4	–	–	700
Ausnutria Hyproca Group	297	–	322	42	661
	993	4	322	42	1,361
31 December 2013					
Ausnutria Group	607	4	–	–	611
Ausnutria Hyproca Group	267	–	249	26	542
	874	4	249	26	1,153

As at 30 June 2014, the Group has a total of 1,361 (31 December 2013: 1,153) full-time employees. For the 2014 Interim Period, total employee costs, including Directors' emoluments, amounted to approximately RMB122.7 million (2013 Interim Period: approximately RMB102.8 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.

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 2014 Interim Period (2013 Interim Period: Nil).

DIVIDEND DISTRIBUTION

The Directors do not recommend a payment of an interim dividend for the 2014 Interim Period (2013 Interim Period: Nil).

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 Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as the standards for the Directors' dealings in the securities of the Company. Having made specific enquiry with all Directors, the Directors confirmed that they have complied with the required standard set out in the Model Code for the 2014 Interim Period.

Other Information

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 practices and procedures, quality Board and sound internal controls help the Group to safeguard the interests of the Shareholders and improve its performance.

The Board strives to implement the best practices embodies in the Listing Rules to Corporate Governance Code (the "**CG Code**") where feasible and as far as practicable.

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. As disclosed in the Corporate Governance Report in the Company's annual report for the year ended 31 December 2013, the previous directors and officers liability insurance lapsed on 7 October 2013 and the Company had entered into a new directors and officers liability insurance with another insurance company on 7 January 2014.

Save as disclosed above, in the opinion of the Directors, the Company has complied with the respective code provisions of the CG Code for the 2014 Interim Period.

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

As at 30 June 2014, 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	Notes	**Number of ordinary shares**	**Nature of Interest**	**Percentage of issued share capital**
Mr. Yan Weibin ("**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 Limited ("**Brave Leader**"), Silver Castle International Limited ("**Silver Castle**") and Ausnutria Holding Co. Ltd. ("**Ausnutria BVI**"). Brave Leader, Silver Castle and Ausnutria BVI were beneficially held as to 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 30 June 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 30 June 2014, 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 AND DEBENTURES

Save as the COA Shares disclosed in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, at no time during the 2014 Interim Period 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 30 June 2014, 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	Notes	**Number of ordinary shares**	**Nature of Interest**	**Percentage of issued share capital**
All Harmony International Limited ("**All Harmony**")	(i)	107,000,000	Registered owner	10.84%
Brave Leader	(ii)	214,646,000	Registered owner	21.75%
Silver Castle	(iii)	60,000,000	Registered owner	6.08%
Ausnutria BVI	(iv)	200,000,000	Registered owner	20.27%
Mr. Chen Yuanrong ("**Mr. Chen**")	(i)	107,000,000	Interest of a controlled corporation	10.84%
Mr. Wu Yueshi ("**Mr. Wu**")	(ii), (iii), (iv)	474,646,000	Interest of a controlled corporation	48.10%
Ms. Xiong Fanyi ("**Mrs. Wu**")	(v)	474,646,000	Family interest	48.10%

Notes:

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

(ii) 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.

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

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

(v) 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.

Other Information

Save as disclosed above, as at 30 June 2014, no person, other than the Directors, whose interests are set out under 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

The share option scheme was conditionally approved and adopted by a written resolution passed by all Shareholders on 19 September 2009 (the "**Scheme**") whereby the Directors are authorised, at their discretion, to invite, among other eligible participants, employees of the Group (including proposed employees, whether full-time or part-time and including any executive Director), non-executive Directors (including independent non-executive Directors), advisers and consultants, to take up options to subscribe for the Shares. 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 Group. Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 each of the Company. The Scheme shall be valid and effective for a period of ten years commencing on the date on which the Scheme becomes unconditional.

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 aggregate exceed 30% of the issued share capital of the Company from time to time.

As at 30 June 2014, no option has been granted or agreed to be granted under the Scheme.

AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules. The primary duties of the audit committee are to provide the Board with an independent review of the effectiveness of the financial reporting process, internal control and risk management of the Group, to oversee the audit process and to perform other duties and responsibilities stated in the written terms of reference. The audit committee comprises three independent non-executive Directors, namely, Mr. Qiu Weifa, Mr. Jason Wan and Mr. Chan Yuk Tong (Chairman). The unaudited interim condensed consolidated financial statements of the Group for the 2014 Interim Period have been reviewed by the audit committee.

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

	Notes	Six months ended 30 June 2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
REVENUE	4	936,958	797,306
Cost of sales		(666,693)	(564,572)
Gross profit		270,265	232,734
Other income and gains	4	12,087	13,544
Selling and distribution expenses		(144,988)	(109,925)
Administrative expenses		(53,670)	(44,075)
Other expenses		(6,843)	(8,063)
Finance costs	5	(5,947)	(2,901)
Profit before tax	6	70,904	81,314
Income tax expense	7	(12,849)	(13,403)
PROFIT FOR THE PERIOD		58,055	67,911
Attributable to:			
Owners of the parent		53,510	62,703
Non-controlling interests		4,545	5,208
		58,055	67,911
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– basic and diluted (RMB)	9	5.42 cents	6.35 cents

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	**58,055**	67,911
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**254**	(8,213)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**254**	(8,213)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Remeasurement income on defined benefit plan	**–**	1,043
Income tax effect	**–**	(261)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**–**	782
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**254**	(7,431)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**58,309**	60,480
Attributable to:		
Owners of the parent	**52,667**	56,825
Non-controlling interests	**5,642**	3,655
	58,309	60,480

Interim Condensed Consolidated Statement of Financial Position

30 June 2014

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	468,196	360,996
Prepaid land lease payments		2,057	2,085
Goodwill		85,248	85,495
Other intangible assets		33,326	33,526
Deferred tax assets		32,759	29,838
Total non-current assets		621,586	511,940
CURRENT ASSETS			
Inventories	11	489,052	315,653
Trade and bills receivables	12	162,663	175,647
Prepayments, deposits and other receivables		122,839	120,423
Tax recoverable		8,641	8,582
Pledged deposits	13	216,900	213,000
Time deposits	13	250,000	496,295
Cash and cash equivalents	13	442,823	161,161
Total current assets		1,692,918	1,490,761
CURRENT LIABILITIES			
Trade payables	14	269,408	167,951
Other payables and accruals		310,736	256,553
Derivative financial instruments		589	716
Interest-bearing bank loans and other borrowings		341,037	259,986
Tax payable		33,709	37,484
Total current liabilities		955,479	722,690
NET CURRENT ASSETS		737,439	768,071
TOTAL ASSETS LESS CURRENT LIABILITIES		1,359,025	1,280,011

Interim Condensed Consolidated Statement of Financial Position

30 June 2014

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,359,025	1,280,011
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings		58,634	36,852
Defined benefit plan		18,401	18,454
Deferred tax liabilities		29,215	30,239
Total non-current liabilities		106,250	85,545
Net assets		1,252,775	1,194,466
EQUITY			
Equity attributable to owners of the parent			
Issued capital	15	86,866	86,866
Reserves		998,022	945,355
Proposed final dividend		77,589	77,589
		1,162,477	1,109,810
Non-controlling interests		90,298	84,656
Total equity		1,252,775	1,194,466

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

	Attributable to owners of the parent									
	Issued capital RMB'000	Share premium account* RMB'000	Capital reserve* RMB'000	Statutory surplus reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Proposed final dividend RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Six months ended 30 June 2014 (unaudited)										
At 1 January 2014	86,866	456,267	14,310	48,136	(10,930)	437,572	77,589	1,109,810	84,656	1,194,466
Profit for the period	–	–	–	–	–	53,510	–	53,510	4,545	58,055
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	–	–	–	–	(843)	–	–	(843)	1,097	254
Total comprehensive income for the period	–	–	–	–	(843)	53,510	–	52,667	5,642	58,309
Transfer from retained profits	–	–	–	1,227	–	(1,227)	–	–	–	–
At 30 June 2014	86,866	456,267	14,310	49,363	(11,773)	489,855	77,589#	1,162,477	90,298	1,252,775
Six months ended 30 June 2013 (unaudited)										
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 period	–	–	–	–	–	62,703	–	62,703	5,208	67,911
Other comprehensive loss for the period:										
Exchange differences on translation of foreign operations	–	–	–	–	(6,277)	–	–	(6,277)	(1,936)	(8,213)
Remeasurement gain on defined benefit plan	–	–	–	–	–	399	–	399	383	782
Total comprehensive income for the period	–	–	–	–	(6,277)	63,102	–	56,825	3,655	60,480
Contribution from shareholders	–	–	–	–	–	–	–	–	1,016	1,016
At 30 June 2013	86,866	533,856	14,310	43,612	(18,847)	384,560	–	1,044,357	80,966	1,125,323

* These reserve accounts comprise the consolidated reserves of RMB998,022,000 (30 June 2013: RMB957,491,000) in the interim condensed consolidated statement of financial position.

\# The proposed final dividend for the year ended 31 December 2013 to be paid out of the Company's share premium account has been approved by the Shareholders at the 2013 annual general meeting of the Company held on 19 August 2014.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Notes	Six months ended 30 June 2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**70,904**	81,314
Adjustments for:			
Finance costs	5	**5,947**	2,901
Interest income	4	**(10,768)**	(10,012)
Depreciation and amortisation	6	**21,987**	18,359
Investment income on held-to-maturity investments		**–**	(2,564)
Write-down of inventories to net realisable value	6	**–**	(1,599)
Remeasurement losses on defined benefit plans		**–**	1,029
		88,070	89,428
Increase in inventories		**(174,229)**	(95,828)
Decrease in trade and bills receivables		**12,690**	1,818
Increase in prepayments, deposits and other receivables		**(15,319)**	(22,297)
Increase in trade payables		**102,139**	25,286
Increase in other payables and accruals		**54,516**	23,636
Cash generated from operations		**67,867**	22,043
Interest received		**23,510**	18,077
Interest paid		**(6,025)**	(3,574)
Mainland China corporate income tax paid		**(20,550)**	(5,518)
Overseas tax paid		**(120)**	(13,044)
Net cash flows from operating activities		**64,682**	17,984
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(127,373)**	(41,129)
Additions to other intangible assets		**(2,599)**	(7,740)
Decrease/(increase) in time deposits	13	**246,295**	(123,300)
Increase in pledged time deposits	13	**(3,900)**	(70,000)
Proceeds received from a held-to-maturity investment		**–**	60,000
Net cash flows from/(used in) investing activities		**112,423**	(182,169)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings		**109,251**	90,454
Repayment of bank loans and other borrowings		**(5,817)**	(1,977)
Contribution from non-controlling shareholders of a subsidiary		**–**	1,016
Net cash flows from financing activities		**103,434**	89,493
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**280,539**	(74,692)
Cash and cash equivalents at beginning of year		**161,161**	282,714
Effect of foreign exchange rate changes, net		**1,123**	24
CASH AND CASH EQUIVALENTS AT END OF YEAR		**442,823**	208,046
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	13	**442,823**	208,046

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2014

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 (i) Mainland China, at Floor 9, XinDaXin Building, No. 168, HuangXing Road (M), Changsha City, Hunan Province; (ii) Hong Kong, at Room 2101, Beautiful Group Tower, 77 Connaught Road Central, Central; and (iii) the Netherlands, at Burgemeester Falkenaweg 58-1 (8442LE), Heerenveen. The shares of the Company (the "**Shares**") 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 in the dairy industry in the Netherlands with activities ranging from research and development, milk collection, processing, production, packaging, marketing and sales of dairy products to customers in the Netherlands and other overseas countries.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of preparation

The Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2014 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on the Stock Exchange and with International Accounting Standard ("**IAS**") 34 Interim Financial Reporting issued by the International Accounting Standards Board ("**IASB**").

The Interim Condensed Consolidated Financial Statements does not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2013. The Interim Condensed Consolidated Financial Statements are presented in Renminbi ("**RMB**") and all values are rounded to nearest thousand (RMB'000), except when otherwise indicated.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES (continued)

Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the Interim Condensed Consolidated Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of new standards and interpretations as of 1 January 2014, noted below.

In the current interim period, the Group has applied, for the first time, the following new or revised standards (the "**new or revised IFRSs**") issued by the IASB.

IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities*
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial liabilities*
IAS 36 Amendments	Amendments to IAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets*
IAS 39 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement– Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC 21	*Levies*

The adoption of the new and revised standards resulted in changes to accounting policies, but did not have significant impact on the financial position or performance of the Group.

3. 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 for the six months ended 30 June 2014 as follows:

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

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

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

Segment assets exclude cash and cash equivalents, pledged deposits, time deposits 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.

3. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2014 (unaudited)

	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Total RMB'000
SEGMENT REVENUE			
Sales to external customers	264,786	672,172	936,958
Intersegment sales	–	32,748	32,748
	264,786	704,920	969,706
Reconciliation:			
Elimination of intersegment sales			(32,748)
Revenue from operations			936,958
SEGMENT RESULTS	52,694	14,604	67,298
Reconciliation:			
Interest income			10,768
Finance costs			(5,947)
Corporate and other unallocated expenses			(14,064)
Profit before tax			58,055
OTHER SEGMENT INFORMATION			
Depreciation and amortisation	5,046	16,941	21,987
Capital expenditure*	1,115	128,857	129,972

As at 30 June 2014 (unaudited)

	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Total RMB'000
SEGMENT ASSETS	375,281	1,003,008	1,378,289
Reconciliation:			
Elimination of intersegment receivables			(1,049)
Corporate and other unallocated assets			937,264
Total assets			2,314,504
SEGMENT LIABILITIES	204,560	575,816	780,376
Reconciliation:			
Elimination of intersegment payables			(1,049)
Corporate and other unallocated liabilities			282,402
Total liabilities			1,061,729

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

3. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2013 (unaudited)

	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Total RMB'000
SEGMENT REVENUE			
Sales to external customers	282,197	515,109	797,306
Intersegment sales	–	9,236	9,236
	282,197	524,345	806,542
Reconciliation:			
Elimination of intersegment sales			(9,236)
Revenue from operations			797,306
SEGMENT RESULTS	63,856	19,819	83,675
Reconciliation:			
Interest income			10,012
Finance costs			(2,901)
Corporate and other unallocated expenses			(9,472)
Profit before tax			81,314
OTHER SEGMENT INFORMATION			
Impairment losses written back in profit or loss	–	(1,599)	(1,599)
Depreciation and amortisation	4,414	13,945	18,359
Capital expenditure*	2,645	46,224	48,869

As at 31 December 2013 (audited)

	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Total RMB'000
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

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

3. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The PRC	**517,266**	362,365
European Union	**231,087**	276,429
Middle East	**73,942**	45,620
America	**49,479**	27,689
Australia and New Zealand	**13,023**	40,523
Others	**52,161**	44,680
	936,958	797,306

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

(b) Non-current assets

	30 June	31 December
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Audited)
The PRC	**75,107**	78,955
The Netherlands	**513,720**	403,147
	588,827	482,102

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

Information about major customers

During the six months ended 30 June 2014, there was no revenue from a single external customer which accounted for 10% or more of the Group's total revenue (six months ended 30 June 2013: Nil).

4. 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	Six months ended 30 June 2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
REVENUE			
Sale of goods		936,958	797,306
OTHER INCOME AND GAINS			
Interest income		10,768	10,012
Investment income from a held-to-maturity investment		–	2,564
Government grants	(i)	465	305
Others		854	663
Total other income and gains		12,087	13,544

(i) There were no unfulfilled conditions or contingencies attaching to these grants.

5. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June 2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Total interest expense on financial liabilities not at fair value through profit or loss:		
Interest on bank loans and other borrowings	5,947	2,901

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**666,693**	566,171
Reversal of write-down of inventories to net realisable value	**–**	(1,599)
Cost of sales	**666,693**	564,572
Depreciation	**18,904**	15,125
Amortisation of prepaid land lease payments	**28**	28
Amortisation of other intangible assets	**3,055**	3,206
Minimum lease payments under operating leases:		
Buildings	**1,416**	1,480
Auditors' remuneration	**1,500**	2,250
Professional fees*	**5,909**	6,354
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and staff welfare	**112,098**	95,939
Pension scheme contributions**	**10,592**	6,845
	122,690	102,784

* The professional fees incurred in relation to certain unresolved issues leading to the suspension of trading in the Shares on the Stock Exchange (the "**Unresolved Issues**") are included in other expenses in the consolidated statement of profit or loss and other comprehensive income.

** At 30 June 2014, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (31 December 2013: Nil).

7. 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 six months ended 30 June 2014 (six months ended 30 June 2013: 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 CIT at a rate of 25%. Under the Netherlands income tax laws, enterprises are subject to the Netherlands corporate income tax rate of 20% for the first EURO 200,000 taxable profits and 25% for the taxable profits exceeding EURO 200,000.

Ausnutria China was designated as a High-tech Enterprise and was granted a preferential CIT tax rate of 15% for the three years ending 31 December 2015.

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current charged for the period		
The Netherlands	**1,288**	4,991
The PRC	**15,491**	8,932
Deferred tax	**(3,930)**	(520)
Total tax charge for the period	**12,849**	13,403

7. INCOME TAX (continued)

Six months ended 30 June 2014 (unaudited)

	Hong Kong		The Netherlands		Mainland China		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	(1,112)		6,088		77,988		(12,060)		70,904	
Income tax at the statutory income tax rate	(184)	16.5	1,228	20.2	19,497	25.0	(1,977)	16.4	18,564	26.2
Tax effects on preferential tax rates	–	–	–	–	(6,340)	(8.1)	–	–	(6,340)	(8.9)
Income not subject to tax	–	–	(913)	(15.0)	(1,273)	(1.6)	–	–	(2,186)	(3.1)
Non-deductible items and others, net	–	–	448	7.4	969	1.2	–	–	1,417	2.0
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiary	–	–	–	–	2,000	2.6	–	–	2,000	2.8
Additional deduction of expenses	–	–	(419)	(6.9)	(371)	(0.5)	–	–	(790)	(1.1)
Tax losses not recognised	184	(16.5)	–	–	–	–	–	–	184	0.2
Tax charge at the Group's effective rate	–	–	344	5.7	14,482	18.6	(1,977)	16.4	12,849	18.1

Six months ended 30 June 2013 (unaudited)

	Hong Kong		The Netherlands		Mainland China		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	(2,171)		18,564		73,311		(8,390)		81,314	
Income tax at the statutory income tax rate	(358)	16.5	4,232	22.8	18,327	25.0	–	–	22,201	27.3
Tax effects on preferential tax rates	–	–	–	–	(7,297)	(10.0)	–	–	(7,297)	(9.0)
Non-deductible items and others, net	–	–	523	2.8	888	1.2	–	–	1,411	1.7
Additional deduction of expenses	–	–	(966)	(5.2)	(306)	(0.4)	–	–	(1,272)	(1.6)
Tax losses not recognised	358	(16.5)	–	–	–	–	–	–	358	0.5
Tax losses utilised from previous periods	–	–	708	3.8	–	–	–	–	708	0.9
Adjustments in respect of current tax in previous periods	–	–	–	–	(2,706)	(3.7)	–	–	(2,706)	(3.3)
Tax charge at the Group's effective rate	–	–	4,497	24.2	8,906	12.1	–	–	13,403	16.5

8. INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

9. 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 period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 986,843,000 (six months ended 30 June 2013: 986,843,000) in issue during the period.

Earnings

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	53,510	62,703

Shares

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Weighted average number of ordinary shares in issue during the period 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 six months ended 30 June 2014 and 2013 in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during those periods.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group acquired land and buildings, machinery, office equipment, motor vehicle and construction in progress with an aggregate cost of approximately RMB127,373,000 (six months end 30 June 2013: RMB41,129,000).

At 30 June 2014, 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 EURO 8,935,000, equivalent to approximately RMB75,006,000 (31 December 2013: EURO 8,484,000, equivalent to approximately RMB71,426,000) and EURO 35,283,000, equivalent to approximately RMB296,187,000 (31 December 2013: EURO 22,085,000, equivalent to approximately RMB185,934,000), respectively, were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group.

11. INVENTORIES

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Raw materials	188,795	154,771
Finished goods	295,983	156,885
Others	4,274	3,997
Total	489,052	315,653

At 30 June 2014, certain of the Group's inventories that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EURO 37,182,000, equivalent to approximately RMB312,128,000 (31 December 2013: EURO 24,142,000, equivalent to approximately RMB203,249,000) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group.

12. TRADE AND BILLS RECEIVABLE

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Trade receivables	128,808	140,528
Bills receivable	33,855	35,119
Total	162,663	175,647

The Group normally allows a credit period from one month to 12 months (31 December 2013: one month to 12 months) to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Within 3 months	124,925	105,426
3 to 6 months	2,548	16,762
6 months to 1 year	884	18,044
Over 1 year	451	296
Total	128,808	140,528

There was no provision for impairment as of 30 June 2014 (31 December 2013: Nil). The carrying amounts of the trade and bills receivables approximate to their fair values.

At 30 June 2014, certain of the Group's trade receivables that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EURO 11,956,000, equivalent to approximately RMB100,366,000 (31 December 2013: EURO 13,260,000, equivalent to approximately RMB111,635,000) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group.

13. CASH AND CASH EQUIVALENTS

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Cash and bank balances	442,823	161,161
Time deposits	466,900	709,295
	909,723	870,456
Less: Pledged deposits	(216,900)	(213,000)
Non-pledged time deposits with maturity of between 3 months to 12 months	(250,000)	(496,295)
Cash and cash equivalents in the consolidated statement of financial position	442,823	161,161

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB410,464,000 (31 December 2013: RMB144,169,000). In addition, all the Group's time deposits 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.

14. 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:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Within 12 months	**269,402**	167,942
Over 12 months	**6**	9
Total	**269,408**	167,951

Trade payables are interest-free and are normally settled within 12 months (31 December 2013: 12 months).

15. SHARE CAPITAL

	30 June 2014 HK$'000 (Unaudited)	31 December 2013 HK$'000 (Audited)
Authorised:		
1,500,000,000 (31 December 2013: 1,500,000,000) ordinary shares of HK$0.10 each	**150,000**	150,000

	30 June 2014 (Unaudited)		31 December 2013 (Audited)	
	HK$'000	RMB'000 equivalent	HK$'000	RMB'000 equivalent
Issued and fully paid:				
986,843,000 (31 December 2013: 986,843,000) ordinary shares of HK$0.10 each	**98,684**	**86,866**	98,684	86,866

During the period, there was no movement in share capital (six months ended 30 June 2013: Nil).

16. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (31 December 2013: Nil).

17. PLEDGE OF ASSETS

Details of the Group's assets that were pledged as securities for the Group's banking facilities are set out in notes 10, 11, 12 and 13 to the Interim Condensed Consolidated Financial Statements.

18. 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:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Within one year	2,013	2,390
In the second to fifth years, inclusive	3,709	4,254
Total	5,722	6,644

19. COMMITMENTS

In addition to the operating lease commitments detailed in note 18 above, at the end of the reporting period, the Group had contracted, but not provided for, capital commitments in respect of purchase of plant and machinery of RMB9,580,000 (31 December 2013: RMB23,331,000).

20. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Salaries, allowances and benefits in kind	7,561	7,979
Retirement benefit contributions	678	588
Total compensation paid to key management personnel	8,239	8,567

21. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Interim Condensed Consolidated Financial Statements were approved and authorised for issue by the Board on 28 August 2014.