ANNUAL REPORT 2015

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)

澳优·海普诺凯 Ausnutria

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

Ms. Ho Mei-Yueh (appointed on 19/1/2016)
Mr. Jason Wan
Mr. Lau Chun Fai Douglas (appointed on 2/1/2015)

COMPANY SECRETARY

Mr. Wong Wei Hua Derek

AUTHORISED REPRESENTATIVES

Ms. Ng Siu Hung
Mr. Wong Wei Hua Derek

AUDIT COMMITTEE

Mr. Lau Chun Fai Douglas (appointed as Chairman on 2/1/2015)
Ms. Ho Mei-Yueh (appointed on 19/1/2016)
Mr. Jason Wan

REMUNERATION COMMITTEE

Mr. Lau Chun Fai Douglas (appointed as Chairman on 2/1/2015)
Mr. Yan Weibin
Ms. Ho Mei-Yueh (appointed on 19/1/2016)
Mr. Jason Wan

NOMINATION COMMITTEE

Mr. Yan Weibin *(Chairman)*
Ms. Ho Mei-Yueh (appointed on 19/1/2016)
Mr. Jason Wan
Mr. Lau Chun Fai Douglas (appointed on 2/1/2015)

AUDITORS

Ernst & Young
Certified Public Accountants

COMPLIANCE ADVISER

Asian Capital (Corporate Finance) Limited

REGISTERED OFFICE

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

PRINCIPAL PLACES OF BUSINESS

In Mainland China

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

In Hong Kong

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

In the Netherlands

Dokter van Deenweg 150
8025 BM Zwolle
The Netherlands

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

Bank of China, Hunan Province branch, Changsha
China Construction Bank, Huangxing Road branch, Changsha
Shanghai Pudong Development Bank Co., Limited, Shanghai
ABN AMRO Bank N.V.
Rabobank

STOCK CODE

1717

COMPANY'S WEBSITE

www.ausnutria.com.hk

TO ALL SHAREHOLDERS:

On behalf of Ausnutria Dairy Corporation Ltd. (the "**Company**") and its subsidiaries (collectively, the "**Group**"), I am pleased to present the annual report of the Company for the year ended 31 December 2015 (the "**Year 2015**").

COMPLETION OF MANDATORY GENERAL CASH OFFER AND CHANGE OF SUBSTANTIAL SHAREHOLDERS

On 28 May 2015, Center Laboratories, Inc. ("**Center Lab**") together with eight other institutions (the "**Joint Offerors**") entered into a sale and purchase agreement (the "**Agreement**") with a former substantial shareholder of the Company (the "**Shareholder**") to acquire collectively 197,368,600 issued shares of the Company (the "**Shares**") in aggregate, representing 20.0% of the entire issued share capital of the Company as at the date of entering into the Agreement, for a total consideration of approximately HK$594.1 million (equivalent to HK$3.01 per Share). As the Joint Offerors and parties acting in concert with any of them were interested in more than 30% of the existing issued share capital of the Company upon entering into the Agreement, the Joint Offerors were required to make a mandatory conditional general cash offer of all the Shares (the "**General Offer**") in accordance with Rule 26.1 of the Code on Takeovers and Mergers. Details regarding the General Offer are set out in the composite document jointly issued by the Joint Offerors and the Company dated 2 July 2015 (the "**Composite Document**").

The General Offer was closed on 6 August 2015. Details regarding the result of the General Offer are set out in the joint announcement issued by the Joint Offerors and the Company dated 6 August 2015.

Center Lab was founded in 1959 and is a company incorporated under the laws of Taiwan with limited liability. The shares of Center Lab have been listed on the GreTai Securities Market（證券櫃檯買賣中心）in Taiwan (stock code: 4123) since 2003. Center Lab is an industrial biotechnological company which specialises in manufacturing liquid oral drugs formulations for infants, children, the elderly and special care patients. Mr. Lin Jung-Chin, who was appointed as an executive director of the Company (the "**Director**") on 12 December 2014, is the chairman and the single largest shareholder of Center Lab.

As set out in the Composite Document, the Joint Offerors intend that the Group will continue its existing principal activities. The Joint Offerors do not intend to introduce any major changes to the existing operation and business of the Company immediately after the General Offer. Furthermore, the Joint Offerors have no intention to dispose of assets and/or business of the Group other than in the ordinary and usual course of its business, nor any plan to terminate the employment of any employees or other personnel of the Group.

The Board believes that the Group's future development could benefit from the support of Center Lab as Center Lab will leverage on its research and development, quality controls and management expertise in the pharmaceutical industry to the Group with a view to creating long-term value for the Shareholders.

BUSINESS REVIEW

Acquisition of the residual 49.0% equity interest in Ausnutria Hyproca B.V.

On 12 January 2015, the Group entered into a share purchase agreement (as supplemented by the supplemental share purchase agreement and the letter of exchange dated 28 May 2015 and 31 July 2015, respectively) with Dutch Dairy Investments B.V. ("**DDI**"), a connected person (as defined in the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**")) held by Mr. Bartle van der Meer, an executive Director, for the acquisition of the residual 49.0% equity interest in Ausnutria Hyproca B.V. ("**Ausnutria Hyproca**") for a consideration of approximately HK$470.3 million (the "**Ausnutria Hyproca Acquisition**"). The consideration is to be settled as to HK$100,193,398 in cash and as to the remaining by the issuance of 147,459,300 Shares (the "**Consideration Shares**"), representing approximately 13.0% of the issued Shares as enlarged by the Consideration Shares. The remaining 51.0% equity interest in Ausnutria Hyproca was acquired by the Group in 2011 at a consideration of approximately EUR19.7 million (equivalent to approximately RMB219.5 million). Details of the Ausnutria Hyproca Acquisition are set out in the circular of the Company dated 30 June 2015. The Ausnutria Hyproca Acquisition was approved by the Shareholders at the extraordinary general meeting of the Company on 20 July 2015 and was completed on 15 September 2015.

The Board believes that the completion of the Ausnutria Hyproca Acquisition will facilitate the further consolidation of the business currently conducted by Ausnutria Hyproca and its subsidiaries (collectively, the "**Ausnutria Hyproca Group**") into the Group.

The Year 2015 is special to the Company as, other than the change of substantial Shareholder and the completion of the Ausnutria Hyproca Acquisition, it was also the 12th anniversary since the commencement of the business of the Group in 2003. For Chinese, 12-year represented a cycle (the "**Cycle**"). During the past Cycle, the Group has successfully developed from a local infant formula player to a multinational company in the dairy industry with four factories (including one under construction) in the Netherlands and one in Changsha city, the People's Republic of China (the "**PRC**") and with an annual sales of over RMB2.0 billion contributed from customers worldwide. As at 31 December 2015, the Group has engaged over 1,900 number of employees, of which approximately 1,455 employees were based in the PRC, approximately 398 based in the Netherlands and the remaining in other overseas countries.

During the Cycle, the development of the Group did not go as smoothly as planned. In 2012, the Shares was suspended from trading due to failure to timely report the financial performance of the Group in accordance with the Listing Rules. During the Year 2015, shortly after the completion of the upgrading plan of the Group's factories in the Netherlands, it was reported that some of the inventories produced in the Netherlands had failed to meet the Group's internal standards due to temporary commissioning problems in the production process (the "**Temporary Instability in Production**"). The total losses arising from the written-down of inventories in the Netherlands amounted to RMB97.8 million (equivalent to approximately EUR14.2 million) (the "**Inventory Write-Off**") for the Year 2015. The longer than expected time to upgrade the factory as well as the Temporary Instability in Production have also contributed to a serious shortage in the supply to the growing demand of the Group's own brand products and to the other customers, which in return has also caused an adverse impact on the profitability of the Group for the Year 2015.

For the Year 2015, the Group recorded revenue of approximately RMB2,103.5 million, representing an increase of approximately RMB137.5 million, or approximately 7.0%, when compared with the year ended 31 December 2014 (the "**Year 2014**"). The Group's profit attributable to ordinary equity holders of the parent (including the share of the Inventory Write-Off of RMB97.8 million) decreased by approximately 43.9% to approximately RMB50.6 million for the Year 2015. Excluding the impact of the Inventory Write-Off, the Group's profit attributable to ordinary equity holders of the parent for the Year 2015 amounted to RMB86.6 million and this represented a decrease of approximately 4.0%, or approximately RMB3.6 million, when compared with the Year 2014.

The Company believes that the above incidents were one-off and with all the measurements that the Group has implemented in recent years, including but not limited to, the strengthening of the production processes and the internal controls of the Group, the Group's market share in the industry and hence performance will continue to improve in the years ahead.

Industry Overview

Due to the increasing public health awareness and the demand for higher food quality and safety standards worldwide, new regulations and policies have been proposed and launched from time to time in order to maintain the dairy industry's healthy growth and improve quality and safety standards in paediatric milk formula. In recent years, the government of the PRC has continued to launch series of new policies (the "**New Policies**") including (i) raising standards on granting/renewing production licenses for paediatric milk powder manufacturers in the PRC; (ii) requiring paediatric milk powder manufacturers to establish comprehensive tracking systems from production to distribution in the PRC; and (iii) requiring foreign enterprises to obtain registration of their factories and dairy products, now regulated by a more stringent set of new rules and regulations, before their products can be imported into the PRC. Under the New Policies, all the brands owned by the Group have been granted relevant import approvals whilst all of the overseas factories of the Group have also been successfully registered as approved overseas dairy products producers.

The Company believes that the dairy industry in the PRC, which is the Group's principal market, will continue to be challenging in the year ahead. On the one hand, it is anticipated that the market will continue to maintain a steady growth due to the relaxation of the one-child policy and the rising living standards in the PRC, while on the other hand, the continuous launch of new policies by the PRC government is bringing uncertainties to the development of the dairy industry. However, given the infrastructure that the Company has established in the past, including but not limited to, the solid wholly-owned overseas production base established in the Netherlands and the extensive distribution network in the PRC and overseas, the Group will benefit from the industry reforms in the long-run.

OUTLOOK

The Board believes that the Group's objective to acquire upstream dairy related assets was successfully achieved following the completion of the Ausnutria Hyproca Acquisition and the completion of the facilities upgrading projects of the Ausnutria Hyproca Group. In order to enhance the long-term growth of the Company and to cope with the growing in demand for nutritional products, in addition to the continuing strengthening of the research and development capabilities and the information technology system of the Group, the Group will focus on the development of the following four core strategies, being Expand, Focus, Extend and Strengthen:

EXPAND – Increase production capacity in the Netherlands

In 2014, the Group has approved and commenced the construction of a new factory in Heerenveen, the Netherlands (the "**New Factory**"). The purpose of investing in the New Factory is to improve the blending and packaging capacity as well as the quality standards of the Group. The total investment cost (including the cost of a plot of land with approximately 140,000 square meters and all the production facilities) is estimated to be approximately EUR83.0 million (equivalent to approximately RMB618.8 million). The construction of the New Factory will be financed by banking facilities granted to the Ausnutria Hyproca Group, the proceeds from the Open Offer (as defined below) as well as by the Group's internal working capital.

As at the date of this report, the Group has already invested approximately EUR43.5 million (equivalent to approximately RMB308.6 million) in the New Factory and the construction of the building has already been substantially completed. In the coming months, the Group will commence the construction works in relation to the interior settings and utilities installations, and thereafter the installation of the equipment and machineries. According to the latest schedule in relation to the construction of the New Factory, the trial production is targeted to commence by end of 2016 or early 2017.

The Board believes that the Group's productivity and quality standards and hence the turnover and profitability of the Group will be greatly enhanced upon the commencement of the operations of the New Factory.

FOCUS – Build a unique global position for paediatric formula

Goat milk-based

The Ausnutria Hyproca Group specialises in a complete chain of production from collecting fresh Dutch goat milk from farms to supplying finished goods. As such, it is one of the leading producers of goat milk products in the world. The Group introduced Kabrita series products in the PRC in 2011. In the same year and 2012, the Group entered into agreements with the medical school of Peking University for conducting a series of clinical trials of Kabrita series products. The trials' results revealed that goat milk-based powder is a good alternative to cow milk-based powder in a number of different aspects, including nutrition, digestion and development of one's immune system.

In 2014, the Group approved clinical trials to apply for approval by the Food and Drug Administration (the "**FDA**") for the sale of Kabrita series products in the United States. The conducting of the clinical trails and the application of the import approval to the United States of Kabrita series products has been carried out as scheduled.

The Group has also established subsidiaries with independent third parties for the sale of Kabrita series products in Russia and the Commonwealth of Independent States (the "**CIS**"), Europe, the Middle East, the United States and Canada (the "**Kabrita JVs**"). The Group will continue to launch Kabrita series products in other major countries and aims to become a global market leader 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 Peking 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 for FDA approval.

For the Year 2015, sale of Kabrita series products amounted to approximately RMB540.0 million, representing an increase of approximately 78.4%, when compared with the Year 2014. The compound annual growth rate in relation to sale of Kabrita since it was launched in 2011 was 128.9%. According to the data as obtained from the PRC customs, Kabrita has been considered as one of the best selling imported goal milk-based infant formula in the PRC in 2015.

Cow milk-based

The Group commenced its business for the marketing and distribution of cow milk-based infant formula in 2003. In order to secure the long-term growth of the Group, the Group acquired 51% and 49% equity interest in Ausnutria Hyproca in 2011 and 2015, respectively. In 2013 and 2014, in order to further integrate the business of the Ausnutria Hyproca Group and to support the future cow and goat milk-based own-branded infant formula development of the Group, the Group invested significant amounts on the capital expenditure plans in order to increase and improve the productivity and the quality standards of the Ausnutria Hyproca Group.

For the Year 2015, sale of cow milk-based own-branded infant formula increased by approximately 12.9% to approximately RMB649.7 million. The Group will continue to focus on the development of own-branded infant formula business which the net returns are comparatively higher when compared with other businesses of the Group.

EXTEND – Continue upward integration and product diversification

The Group considers that the ability to secure quality milk supply to be one of the critical success factors in the dairy industry.

Upon completion of the Ausnutria Hyproca Acquisition, the Group now not only owned the entire interests of the three factories and the New Factory, which are all located in the Netherlands with ample quality milk supply, to support the growing market demands on quality infant formula worldwide, but also the entire business chain from milk collection (via the investment in Farmel Holding B.V. (the "**Farmel Group**"), which its principally engaged in the collection and trading of cow and goat milk, in 2014) to production (via the factories in the Netherlands and the PRC) for the distribution of dairy products to the Group's worldwide customers.

The Group realises the business potentials and importance to continue the supply of quality nutrition products and to serve the infants in their future life. In order to meet the needs of the consumers, subsequent to the Year 2015, the Group has approved the commencement of business in functional liquid milk (the "**Liquid Milk**") and the establishment of a work force for the conducting of nutrition business in the PRC. According to the business plans approved by the Board, the nutrition products will be imported from overseas suppliers with target customers primarily in the PRC. Subject to the progress of the developments, the initial investments by the Group in relation to the Liquid Milk and the nutrition business, which will be owned as to 55% and 60% by the Group, will be RMB20.0 million and RMB30.0 million, respectively. The remaining interests of the above two projects are owned by the management team of the two new businesses.

The Group will continue to make use of its internal resources and global network to explore potential investment opportunities in upstream dairy and/or nutrition related assets and operations to broaden the Group's milk powder supply sources and related dairy and/or nutrition related products to meet the global demand, in particular the PRC, with growing demands for quality health related products.

STRENGTHEN – Commitment on human resources

With the rapid growing in the scale of operations of the Group, the Board realises the importance of team building and human resources development to be one of the key factors for the continuing success of the Group. During the Year 2015, the Group has established Ausnutria University, an internal training organisation, to support the development of the key talents and to provide a continuous training to the employees.

Through the establishment of Ausnutria University and the committed investments in human resources, the Board believes that the human resources of the Group, which is considered to be the key asset of the Group, will be stronger in the long run and is considered to be essential for the long-term growth of the Group.

OPEN OFFER

In order to finance the above projects and the long-term growth of the Group, on 28 October 2015, the Company proposed to raise approximately HK$249.55 million (before expenses) by way of an open offer of 113,430,230 offer shares (the "**Offer Shares**") at the offer price of HK$2.20 per Offer Share on the basis of one Offer Share for every ten existing Shares (the "**Open Offer**"). The Open Offer was fully underwritten by Center Lab on the terms and conditions as set out in the underwriting agreement dated 28 October 2015 entered into between the Company and Center Lab (the "**Underwriting Agreement**").

As set out in the announcement of the Company dated 18 December 2015, the Open Offer was under-subscribed by 26,981,376 Offer Shares. In accordance with the Underwriting Agreement, Center Lab has subscribed for all the under-subscribed 26,981,376 Offer Shares, representing approximately 23.79% of the total number of Offer Shares and approximately 2.16% of the issued share capital of the Company of 1,247,732,530 Shares as enlarged by the 113,430,230 Offer Shares. The dealing of the Offer Shares commenced on 22 December 2015. Further details of the Open Offer was set out in the prospectus of the Company dated 27 November 2015.

APPRECIATION

I would like to take this opportunity to thank 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 the year.

Yan Weibin
Chairman

Changsha City, the PRC
30 March 2016

Management Discussion and Analysis

FINANCIAL REVIEW

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

	2015 RMB'M	2014 RMB'M	Change %
REVENUE			
Own brands*	1,205.8	901.3	33.8%
Milk powder	366.6	228.5	60.4%
Private labels	274.6	486.5	–43.6%
Contract manufacturing	16.2	29.1	–44.3%
Butter	108.2	123.0	–12.0%
Others	132.1	197.6	–33.1%
	2,103.5	1,966.0	7.0%
Represented by:			
(A) Ausnutria China	649.7	575.5	12.9%
(B) Ausnutria Hyproca Group	1,551.3	1,491.8	4.0%
	2,201.0	2,067.3	6.5%
Less: Intersegment sales	(97.5)	(101.3)	–3.8%
The Group	2,103.5	1,966.0	7.0%

* After elimination of intersegment sales

For the Year 2015, the Group recorded revenue of approximately RMB2,103.5 million, representing an increase of approximately RMB137.5 million, or approximately 7.0%, from approximately RMB1,966.0 million for the Year 2014.

(A) Revenue – Ausnutria China

Ausnutria Dairy (China) Co., Ltd. ("**Ausnutria China**") is principally engaged in the production, marketing and distribution of imported paediatric cow milk-based products in the PRC. In order to increase the competitiveness of Ausnutria China, Ausnutria China has launched a number of new infant formula under different brands in recent years in order to better penetrate into the different consumer sectors and to fulfill the wide range of demands of the consumers in the PRC.

An analysis of the Ausnutria China's revenue is as follows:

	2015 RMB'M	2014 RMB'M	Change %
Allnutria division	316.8	293.0	8.1%
Puredo division	141.1	101.4	39.2%
1897 division	151.1	130.3	16.0%
Others	40.7	50.8	–19.9%
Total	649.7	575.5	12.9%

Despite the Temporary Instability in Production which has caused an interruption in the supply of paediatric cow milk-based products from the Ausnutria Hyproca Group (the upstream) to Ausnutria China, sale of own-branded paediatric cow milk-based products was able to achieve an average annual growth rate of 12.9% and this was mainly attributable to the increasing marketing efforts by Ausnutria China during the Year 2015 and the gradually stabilization of the production and hence the increasing in supply from the Ausnutria Hyproca Group to cope with the growth in sale of Ausnutria China in the second half of 2015.

(B) 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 and customers based in most of the major countries of the world.

An analysis of the Ausnutria Hyproca Group's revenue is as follows:

	Notes	2015 RMB'M	2014 RMB'M	Change %
Manufacturing for:				
Own brands	(i)	556.1	325.8	70.7%
Private labels	(ii)	274.6	486.5	–43.6%
Sales to Ausnutria China	(iii)	97.5	101.3	–3.8%
Milk powder	(iv)	366.6	228.5	60.4%
Contract Manufacturing	(v)	16.2	29.1	–44.3%
Butter	(vi)	108.2	123.0	–12.0%
		1,419.2	1,294.2	9.7%
Manufacturing and trading for:				
Cream and other dairy products	(vii)	132.1	197.6	–33.1%
Total		1,551.3	1,491.8	4.0%

Notes:

(i) Represented the sale of the Ausnutria Hyproca Group's own brands Kabrita in the PRC, Europe, Russia and CIS, United States and the Middle East countries and Neolac for cow milk-based infant formula in the PRC.

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

(iii) Represented the sale of the cow milk-based infant formula to Ausnutria China under brand names (such as the fourth generation of Allnutria, Hyproca 1897 and Lacfor).

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

(v) Represented the processing and sub-contracting fees for the blending and packaging services provided to leading industry participants.

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

(vii) Mainly represented the processing of cream and the trading of fresh milk, etc.

One of the long-term strategies of the Ausnutria Hyproca Group is to focus on the development of own-branded business (mainly Kabrita) which the profit contributions to the Group is much higher as compared with private labels and other businesses.

During the Year 2015, as a result of the Temporary Instability in Production after the upgrades of the production facilities in the Netherlands, the Group allocated its lower than planned production capacity mainly to satisfy the growing demands of its own-branded business (mainly Kabrita), the sale of other businesses decreased when compared with last year.

Besides, owing to the fact that some of the infant formula produced has failed to meet the internal quality standards of the Group, the concerned powder has been sold at a lower value as semi-finished milk powder, sale of milk powder segment for the Year 2015 increased by 60.4% when compared with last year.

Gross profit and gross margin

	Gross profit		Gross margin	
	2015 RMB'M	2014 RMB'M	2015 %	2014 %
Ausnutria China	329.4	296.8	50.7	51.6
Ausnutria Hyproca Group*	260.6	270.4	17.9	19.4
The Group	590.0	567.2	28.0	28.9

* After elimination of intersegment sales

The Group's gross profit for the Year 2015 was approximately RMB590.0 million, representing an increase of approximately RMB22.8 million, or approximately 4.0%, when compared with the Year 2014.

The slight decrease in the gross profit margin was mainly due to the adverse impact as a result of the Inventory Write-Off in the Netherlands of approximately RMB97.8 million (equivalent to approximately EUR14.2 million), which accounted for approximately 4.6 percentage points of the gross profit margin, for the Year 2015. Excluding the impact of the Inventory Write-Off, the gross profit margin of the Group increased by 3.7% and this was mainly due to the increase in proportion of sales contributed by own-branded business, in particular, Kabrita in the PRC, which the sale has increased from RMB259.4 million for the Year 2014 to RMB461.0 million for the Year 2015.

Other income and gains

An analysis of other income and gains is as follows:

	Notes	2015 RMB'M	2014 RMB'M
Interest income on bank and other deposits	(i)	31.6	22.8
Compensation income/insurance claim for business interruption		3.2	2.6
Government grants	(ii)	2.9	0.9
Foreign exchange gain	(iii)	3.4	–
Others		4.6	3.0
		45.7	29.3

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

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

(iii) Balance mainly represented exchange gain derived from the translation of the bank loans of the Group that were denominated in HK$ and EUR as at 31 December 2015.

Selling and distribution expenses

An analysis of selling and distribution expenses is as follows:

	2015 RMB'M	2014 RMB'M
Ausnutria China	232.0	173.6
Ausnutria Hyproca Group	265.6	162.4
	497.6	336.0

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 23.7% and 17.1% of revenue for the Year 2015 and the Year 2014, respectively.

The selling and distribution expenses of Ausnutria China represented approximately 35.7% (Year 2014: 30.2%) of Ausnutria China's revenue for the Year 2015. The increase in selling and distribution expenses of Ausnutria China was mainly due to the increase in marketing costs for brand building and the increase in distribution cost on channels to cope with the intense market competition during the year.

The selling and distribution expenses of the Ausnutria Hyproca Group represented approximately 17.1% (Year 2014: 10.9%) of the Ausnutria Hyproca Group's revenue (before elimination of intersegment sales) for the Year 2015. Included in the selling and distribution expenses of the Ausnutria Hyproca Group, approximately RMB190.3 million (Year 2014: RMB113.6 million) representing approximately 71.6% (Year 2014: 70.0%) related to the sales and marketing of Kabrita. Kabrita series has been one of the core products of the Group since it was launched in 2011. In order to further increase the Ausnutria Hyproca Group's market share of goat milk-based infant formula worldwide, the Ausnutria Hyproca Group continued to allocate more of its resources on the marketing and promotion of its product in order to enhance its market awareness. Besides, as a result of the Temporary Instability in Production and the implementation of the New Policies, the Ausnutria Hyproca Group incurred additional air freight charges for the delivery of its products in order to meet the schedule of its customers and additional laboratory testing costs in order to fulfill the requirements of the New Policies. Selling and distribution costs of the Ausnutria Hyproca Group increased during the year.

Administrative expenses

An analysis of the administrative expenses is as follows:

	2015 RMB'M	2014 RMB'M
Ausnutria China	52.4	54.2
Ausnutria Hyproca Group	63.9	51.1
	116.3	105.3

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

The increase in the administrative expenses was primarily attributed to (i) the increase in headcounts on both the managerial and administrative staff to cope with the continuous increase in the scale of operations of the Group, particularly in the Netherlands; (ii) bank charges for the new financing obtained by the Group; (iii) the professional fees for new business development and advisory services to the Groups; and (iv) the general increase in research and development costs.

Other expenses

Other expenses mainly comprised legal and professional fees incurred for the Ausnutria Hyproca Acquisition and the General Offer of a total of approximately RMB2.5 million (Year 2014: Nil); the write-off of trade receivables of approximately RMB3.2 million (Year 2014: approximately RMB0.4 million); and loss on disposal of property, plant and equipment and other intangible assets of a total of approximately RMB1.3 million (Year 2014: approximately RMB0.4 million).

Last year's other expenses also included professional fees incurred for the handling of suspension in the trading of the Shares on the Stock Exchange of approximately RMB9.4 million.

Finance costs

The finance costs of the Group for the Year 2015 amounted to approximately RMB16.0 million (Year 2014: RMB10.3 million), representing the interest on bank loans and other borrowings raised principally for the financing of the working capital and the capital expenditure plan (the "**CAPEX Plan**") of the Ausnutria Hyproca Group.

The increase in finance costs was mainly attributable to the drawdown of additional bank loans for the financing the working capital as a result of the adverse impact caused by the Temporary Instability in Production during the Year 2015 and the CAPEX Plan during the Year 2014.

Share of profit of an associate

During the Year 2014, the Ausnutria Hyproca Group invested in 50% of the equity interest in the Farmel Group for a consideration of EUR3.55 million (equivalent to approximately RMB26.1 million). Balance represented the share of profits of the Farmel Group for the Year 2015. The Farmel Group, which has entered into long-term contracts with farmers, is principally engaged in the collection and trading of milk in Europe.

Income tax expenses

The profits generated by the Group for the Year 2015 were mainly derived from operations in the PRC. Under the PRC income tax laws, enterprises are subject to corporate income tax ("**CIT**") at a rate of 25%. Ausnutria China was designated as a High-tech Enterprise and was granted a preferential CIT rate of 15% for the Year 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 EUR200,000 taxable profits and 25% for the taxable profits exceeding EUR200,000.

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

	Mainland China		The Netherlands		Others		Group	
	2015	2014	2015	2014	2015	2014	2015	2014
Profit/(loss) before tax (RMB'M)	170.4	140.8	(116.3)	30.2	(50.3)	(33.7)	3.8	137.3
Income tax expense/(credit) (RMB'M)	37.8	24.9	(27.5)	(0.4)	(9.6)	(3.9)	0.7	20.6
Effective income tax rate (%)	22.2	17.7	23.6	(1.5)	19.1	11.6	17.9	15.0

The effective tax rate for profits generated from Mainland China for the Year 2015 at 22.2% (Year 2014: 17.7%) was mainly due to the proportionate increase in profit contributed by the Kabrita business which is operated under other subsidiary established in the PRC and is subject to the standard CIT rate of 25% as compared with Ausnutria China which is subject to the CIT rate of 15%.

The increase in the Group's effective tax rate from 15.0% for the Year 2014 to 17.9% for the Year 2015 was also due to the same reason as set out in the above.

Profit attributable to equity holders of the Company

	2015 RMB'M	2014 RMB'M
Profit/(loss) for the year:		
The Group (other than the Ausnutria Hyproca Group)	58.0	69.8
Ausnutria Hyproca Group	(7.4)	20.4
Profit attributable to equity owners of the Company	50.6	90.2

The Group's profit attributable to equity owners of the Company for the Year 2015 amounted to approximately RMB50.6 million, representing a decrease of approximately 43.9% when compared with the Year 2014. The decrease in net profit was mainly attributable to the Inventory Write-Off of approximately RMB97.8 million during the Year 2015. As the Inventory Write-Off took place prior to the completion of the Ausnutria Hyproca Acquisition, the write-off has a net impact (i.e. after tax and sharing by the 49% non-controlling interests) on the Group's profit attributable to equity holders of the Company of approximately RMB36.0 million.

Excluding the impact of the Inventory Write-off and before taking into accounts the loss in margin that would otherwise be contributed by the concerned inventory, the Group's profit attributable to equity owners of the Company for the Year 2015 amounted to approximately RMB86.6 million, representing a decrease of approximately 4.0% when compared with the Year 2014.

Analysis on Consolidated Statement of Financial Position

Non-current assets

As at 31 December 2015, the total non-current assets of the Group amounted to approximately RMB837.1 million (31 December 2014: approximately RMB683.0 million), mainly comprised property, plant and equipment of approximately RMB586.3 million (31 December 2014: approximately RMB483.2 million), goodwill arising from the acquisition of 51% equity interest in Ausnutria Hyproca in 2011 of approximately RMB72.1 million (31 December 2014: approximately RMB75.7 million), other intangible assets of approximately RMB45.7 million (31 December 2014: approximately RMB44.5 million), interests in the Farmel Group of approximately RMB32.3 million (31 December 2014: RMB30.1 million) and deferred tax assets of approximately RMB98.8 million (31 December 2014: approximately RMB47.5 million).

The increase in the non-current assets of the Group as at 31 December 2015 was principally due to the increase in property, plant and equipment of the Ausnutria Hyproca Group as a result of the investment in the New Factory and the increase in deferred tax assets arising from the Inventory Write-Off of approximately RMB24.5 million (31 December 2014: Nil).

During the Year 2015, the Group invested approximately EUR19.0 million (equivalent to approximately RMB134.1 million) (Year 2014: approximately EUR15.8 million (equivalent to approximately RMB117.8 million)) on the New Factory.

Current assets

As at 31 December 2015, the total current assets of the Group amounted to approximately RMB2,193.4 million (31 December 2014: approximately RMB1,750.2 million), mainly comprised inventories of approximately RMB579.9 million (31 December 2014: approximately RMB515.6 million), trade and bills receivables of approximately RMB185.4 million (31 December 2014: approximately RMB163.6 million), pledged time deposits of approximately RMB769.7 million (31 December 2014: approximately RMB216.9 million), time deposits with banks in the PRC of approximately RMB186.0 million (31 December 2014: approximately RMB465.1 million) and cash and cash equivalents of approximately RMB307.6 million (31 December 2014: approximately RMB278.3 million).

Inventories

An analysis of the inventories is as follows:

	2015 RMB'M	2014 RMB'M
Ausnutria China	111.8	120.7
Ausnutria Hyproca Group	468.1	394.9
	579.9	515.6

The inventory turnover days of Ausnutria China and the Ausnutria Hyproca Group as at 31 December 2015 was approximately 132 days (31 December 2014: approximately 138 days) and approximately 132 days (31 December 2014: approximately 101 days), respectively.

The inventory turnover days of Ausnutria China remained fairly stable when compared with last year. The increase in inventory turnover days of the Ausnutria Hyproca Group by 31 days was mainly due to the continuous increase in sales contributed by own-branded business which requires a longer lead time from production to sale when compared with other segments.

Trade and bills receivables

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

	2015 RMB'M	2014 RMB'M
Trade receivables:		
– Ausnutria China	17.5	24.6
– Ausnutria Hyproca Group	128.1	99.6
	145.6	124.2
Bills receivable	39.8	39.4
	185.4	163.6

The trade receivable turnover days of Ausnutria China and the Ausnutria Hyproca Group as at 31 December 2015 was approximately 12 days (31 December 2014: approximately 17 days) and approximately 29 days (31 December 2014: approximately 28 days), respectively, which remained fairly stable and were within the credit periods granted to the customers of the Group.

Pledged deposits

Most of the cash and bank balances of the Group is denominated in RMB and deposited with banks in the PRC. In order to finance the working capital, the CAPEX Plan and the construction of the New Factory of the Ausnutria Hyproca Group, the Group pledged additional RMB deposits in the PRC in order to obtain the bank facilities in Europe and Hong Kong.

Time deposits and cash and cash equivalents

As at 31 December 2015, the Group's cash and bank balances and time deposits amounted to a total of approximately RMB493.6 million, representing a decrease of approximately RMB249.8 million, or approximately 33.6%, from approximately RMB743.4 million as at 31 December 2014. The decrease was mainly due to the increase in pledged deposits for the reasons as set out in the above.

Current liabilities

As at 31 December 2015, the total current liabilities of the Group amounted to approximately RMB1,474.3 million (31 December 2014: approximately RMB1,121.7 million), mainly comprised trade payables of approximately RMB172.7 million (31 December 2014: approximately RMB184.2 million), other payables and accruals of approximately RMB475.8 million (31 December 2014: approximately RMB373.5 million), interest-bearing bank loans and other borrowings of approximately RMB757.0 million (31 December 2014: approximately RMB517.2 million) and CIT payables of approximately RMB66.9 million (31 December 2014: approximately RMB46.4 million).

Trade payables

An analysis of the trade payables is as follows:

	2015 RMB'M	2014 RMB'M
Ausnutria China	18.2	10.6
Ausnutria Hyproca Group	154.5	173.6
	172.7	184.2

The trade payable turnover days of Ausnutria China and the Ausnutria Hyproca Group as at 31 December 2015 was approximately 16 days (31 December 2014: approximately 17 days) and approximately 50 days (31 December 2014: approximately 53 days), respectively, which remained fairly stable and were in line with the credit periods granted by the suppliers.

Interest-bearing bank loans and other borrowings

The interest-bearing bank loans and other borrowings as at 31 December 2015 were primarily used for the financing of the working capital and the CAPEX Plan of the Ausnutria Hyproca Group. The increase was mainly due to new bank loans were drawn down to finance the investment in the New Factory and the replenishment of the working capital of the Ausnutria Hyproca Group as a result of the adverse impact caused by the Inventory Write-Off during the year.

Non-current liabilities

As at 31 December 2015, the total non-current liabilities of the Group amounted to approximately RMB228.7 million (31 December 2014: approximately RMB96.6 million), comprised interest-bearing bank loans and other borrowings of approximately RMB189.2 million (31 December 2014: approximately RMB51.9 million), accruals for defined benefit plan of approximately RMB12.9 million (31 December 2014: approximately RMB15.7 million) and deferred tax liabilities of approximately RMB26.6 million (31 December 2014: approximately RMB29.1 million).

Accruals for defined benefit plan

One of the subsidiaries of 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 67. The accruals for defined benefit plans of approximately RMB12.9 million (31 December 2014: approximately RMB15.7 million) were determined based on the actuarial valuations as at 31 December 2015 carried out by independent professional valuers using the projected unit credit actuarial valuation method.

No defined benefit plan was operated by other companies of the 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 2015 and the fair value adjustment arising from the acquisition of Ausnutria Hyproca of a total of approximately RMB13.5 million (31 December 2014: approximately RMB16.8 million); and (ii) the withholding tax amounting to approximately RMB13.1 million (31 December 2014: approximately RMB12.3 million) calculated at 10% on the scheduled distributable profits of the PRC subsidiaries of the Group.

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 2015, the balance mainly represented the minority interests in the Kabrita JVs. The significant decrease in the non-controlling interests balance when compared with the balance as at 31 December 2014 was mainly due to the completion of the Ausnutria Hyproca Acquisition during the Year 2015.

Analysis on Consolidated Statement of Cash Flows

An extract of the cash flows information of the Group is as follows:

	2015 RMB'M	2014 RMB'M
Net cash flows from/(used in) operating activities	(45.5)	85.9
Net cash flows used in investing activities	(435.6)	(212.5)
Net cash flows from financing activities	515.8	228.8
Net increase in cash and cash equivalents	34.7	102.2

Net cash flows from/(used in) operating activities

The profit before tax of the Group for the Year 2015 was approximately RMB3.8 million (Year 2014: approximately RMB137.3 million) while net cash flows used in operating activities of the Group for the Year 2015 amounted to approximately RMB45.5 million (Year 2014: inflows of approximately RMB85.9 million).

The difference was mainly the net effect of the increase in inventories of approximately RMB78.1 million (Year 2014: approximately RMB236.6 million) and the increase in prepayments (mainly to suppliers) of approximately RMB59.3 million (Year 2014: decrease of approximately RMB7.8 million) and after offsetting the impact on the increase of other payables and accruals of approximately RMB107.5 million (Year 2014: approximately RMB123.5 million) mainly due to the increase in the scale of operations of the Group.

Net cash flows used in investing activities

The net cash flows used in investing activities of the Group for the Year 2015 of approximately RMB435.6 million (Year 2014: approximately RMB212.5 million) mainly represented (i) the purchase of property, plant and equipment of approximately RMB157.2 million (Year 2014: approximately RMB206.5 million), mainly for the expansion of the production capacity of the Ausnutria Hyproca Group and the construction of the New Factory; and (ii) the increase in time deposits of approximately RMB273.7 million as part of the Group's treasury arrangement (Year 2014: decrease of approximately RMB27.3 million).

Last year's cash flows used in investing activities also included the investments in the Farmel Group of approximately RMB26.1 million.

Net cash flows from financing activities

The net cash flows from financing activities of the Group for the Year 2015 of approximately RMB515.8 million (Year 2014: approximately RMB228.8 million) was primarily contributed by (i) the receipt of the net proceeds from the Open Offer of approximately RMB206.4 million (Year 2014: Nil); (ii) the drawdown of the additional bank loans and other borrowings of a total of approximately RMB392.0 million (Year 2014: approximately RMB312.6 million) for the financing of the investing activities mentioned above; and (iii) the settlement of the cash consideration for the Ausnutria Hyproca Acquisition of approximately RMB82.3 million (Year 2014: Nil).

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

Save for the Ausnutria Hyproca Acquisition as detailed above in this report, there were no material investments and acquisitions and disposals of subsidiaries and associated companies during the Year 2015.

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	
	2015	2014
	RMB'M	RMB'M
Cash and cash equivalents	**307.6**	278.3
Time deposits	**186.0**	465.1
Total bank loans and other borrowings	**946.2**	569.1
Total assets	**3,030.5**	2,433.3
Gearing ratio (1)	**31.2%**	23.4%

Note:

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

As at 31 December 2015, 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 approximately EUR111.4 million, equivalent to approximately RMB790.7 million (31 December 2014: approximately EUR98.8 million, equivalent to approximately RMB736.8 million) and the time deposits that were attributable to Ausnutria China of RMB769.7 million (31 December 2014: RMB216.9 million) 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 2015, 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 ("**EUR**") 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 EUR 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 EUR2.5 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 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 2015, the Group, as lessee, had total future minimum lease payments under non-cancellable operating leases amounting to approximately RMB16.3 million (31 December 2014: approximately RMB8.0 million).

As at 31 December 2015, the Group had contracted, but not provided for, capital commitments in respect of purchase of plant and machineries and construction of the building of the New Factory of a total of approximately RMB172.9 million (31 December 2014: approximately RMB40.0 million).

CONTINGENT LIABILITIES

As at 31 December 2015, the Group did not have any significant contingent liabilities (31 December 2014: Nil).

USE OF PROCEEDS

The Shares were listed on the Main Board of the Stock Exchange on 8 October 2009 with net proceeds from the global offering of the Shares in 2009 of approximately HK$823.1 million (after deducting underwriting commissions and related expenses) (the "**Net IPO Proceeds**"). The Net IPO Proceeds applied for the investment in upstream operations and the expansion of the Group's distribution network and brand building with each accounted for 30% of the Net IPO Proceeds; and for the enhancing of the Group's research and development efforts, the introduction of new series of organic paediatric nutrition products, the establishment of new production lines and warehouse and for the general working capital use with each accounted for 10% of the Net IPO Proceeds as set out in the Prospectus was fully utilised as at 31 December 2015.

The gross and net proceeds raised from the Open Offer which the dealing of the Offer Shares commenced on 22 December 2015 amounted to approximately HK$249.55 million and approximately HK$248.37 million, respectively. The utilisation of the net proceeds from the Open Offer as at 31 December 2015 was summarised as follows:

	Net proceeds from the Open Offer HK$'000	Utilised HK$'000	Balance as at 31 December 2015 HK$'000
Construction of new production facilities in the Netherlands	130,000	(130,000)	–
Repayment of borrowings in the Netherlands	50,000	(50,000)	–
Investment in potential investment opportunities	50,000	–	50,000
General working capital	18,366	(18,366)	–
	248,366	(198,366)	50,000

HUMAN RESOURCES

Number of full-time employees	Mainland China	Hong Kong	The Netherlands	Others	Total
31 December 2015					
The Group (other than the Ausnutria Hyproca Group)	**934**	**4**	**–**	**–**	**938**
Ausnutria Hyproca Group	**521**	**–**	**398**	**83**	**1,002**
	1,455	**4**	**398**	**83**	**1,940**
31 December 2014					
The Group (other than the Ausnutria Hyproca Group)	763	4	–	–	767
Ausnutria Hyproca Group	444	–	356	50	850
	1,207	4	356	50	1,617

For the Year 2015, total employee costs, including Directors' emoluments, amounted to approximately RMB272.2 million (Year 2014: approximately RMB233.3 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale.

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

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"), Chairman

Mr. Yan, aged 50, was appointed as the executive Director on 8 June 2009 and was elected chairman of the Board (the "**Chairman**") on 7 June 2013. Mr. Yan is the sole shareholder and director of Ausnutria Holding Co Ltd ("**Ausnutria BVI**"), one of the substantial Shareholders, and also a director of a number of the Company's subsidiaries, including Ausnutria China. He joined the Group 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. Mr. Yan was a director of Yuan Longping High-tech Agriculture Co., Ltd*（袁隆平農業高科技股份有限公司）("**Longping High-tech**"), a company whose shares are listed on the Shenzhen Stock Exchange, from 2004 to January 2016. He was Longping High-tech's chief 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 the vice chairman from June 2012 to January 2016. Mr. Yan has resigned all his duties in Longping High-tech since January 2016.

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

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

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

Mr. van der Meer, aged 70, was appointed as the executive Director and chief executive officer (the "**CEO**") of the Company on 7 June 2013. Mr. van der Meer is one of the founders of Ausnutria Hyproca and has been involved in the strategic management since the establishment of Ausnutria Hyproca in 1994. He was also a member of the board of directors and chief executive officer of Ausnutria Hyproca since 2012 to April 2015. Mr. van der Meer is primarily responsible for managing and executing the Group's overall business directions and corporate operation decisions. He graduated with a business administration degree in the Netherlands with a major in banking in 1966. He worked for Rabobank, a multinational banking and financial services group in the Netherlands for more than 25 years. He is serving as the executive director of PMH Investments B.V., a private equity which owned 46.55% equity interests in DDI, a substantial Shareholder, and Vegelin Group B.V. since 1994. Mr. van der Meer has been the chairman of supervisory board of sc Heerenveen NV (a soccer club which plays in the premier division in the Netherlands) since 1998 to 2012, and a member of Foundation Accell Group (a company listed on Euronext Amsterdam (formerly known as Amsterdam Stock Exchange) since 1998.

Ms. Ng Siu Hung ("Ms. Ng")

Ms. Ng, aged 47, 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.

Non-executive Directors

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

Mr. Tsai, aged 66, was appointed as the non-executive Director (the "**NED**") on 19 January 2016. Mr. Tsai graduated with a bachelor's degree in medical science from China Medical University and holds a doctor of medical science from the University of Tokyo. Mr. Tsai has extensive knowledge and expertise in the biomedical areas. Mr. Tsai is the founder and chairman of Asia University. He is also a professor and the chairman of China Medical University. Mr. Tsai serves the role of director in Taiwan Fertilizer Co., Ltd. and Taiwan Optical Platform, the shares of which are listed on the Taiwan Stock Exchange. He is also the director of Lumosa Therapeutics Co., Ltd. and Medeon Biodesign, Inc., which are listed on the GreTai Securities Market（證券櫃檯買賣中心）in Taiwan. Mr. Tsai is also a director of BioEngine Capital. Mr. Tsai was a member of Supervisory Committee of the Central Health Insurance Administration（中央健康保險署之監理委員會）of Ministry of Health and Welfare Taiwan, the deputy convener of the Central Medical Review Committee（中區醫療審查委員會）, a counselor of Ministry of Health and Welfare, a director of the Board of National Health Research Institutes and the chairman of Taiwan Hospital Association.

Mr. Zeng Xiaojun ("Mr. Zeng")

Mr. Zeng, aged 41, was appointed as the NED on 19 January 2016. He graduated from Jiangxi University of Finance and Economics in international trade economics. Mr. Zeng is currently a member of the executive management team, the chief strategy officer and the managing partner of Shenzhen GTJA Investment Group Co., Ltd. He is responsible for investment research, investment management, public relations in branding and corporate strategies. Mr. Zeng has extensive knowledge and expertise in the biotechnology industry. He served as senior management of several pharmaceutical companies, namely China Resource Sanjiu OTC Introduction Group and Zhejiang Conba Pharmaceutical Sales Co. from 1996 to 2014. He was mainly responsible for market research, participating in sale, corporate strategies and new products introduction.

Independent Non-executive Directors

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

Ms. Ho, aged 65, was appointed as the independent non-executive Director (the "**INED**") on 19 January 2016. She graduated from the National Taiwan University with a bachelor of agricultural chemistry. She is currently an independent director of AU Optronics Corporation, Advanced Semiconductor Engineering Inc., Kinpo Electronics, Inc. and Bank of Kaohsiung Ltd, the shares of which are listed on the Taiwan Stock Exchange. Ms. Ho has over 30 years of experience of working as a government officer in Taiwan, with a focus on economic affairs. Ms. Ho was the Minister of Ministry of Economic Affairs Taiwan from May 2004 to January 2006. She was the chairperson of The Council for Economic Planning and Development Taiwan from May 2007 to May 2008. During her tenure of service as a civil servant, Ms. Ho involved in the formation of various national policies, including Plans for National Development（國家發展計劃）for Taiwan. From May 2013 to May 2015, Ms. Ho was also the independent director of Taiwan Pelican Express Co., Ltd, the shares of which are listed on the Taiwan Stock Exchange.

Mr. Jason Wan ("Mr. Wan")

Mr. Wan, aged 52, 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, a research professor in food microbiology and biotechnology at the Illinois Institute of Technology, USA from 2009 to 2015, and a tenured full professor and Associate Chair for the Department of Food Science and Nutrition since 2015, and currently the Associate Director for the Institute for Food Safety and Health, Illinois Institute of Technology, USA. 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, including those supporting a number of PhD scholars relating to whey proteins and biological properties, as well as major research grants for research relating to dairy processing.

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

Mr. Lau, aged 43, was appointed as the INED on 2 January 2015. Mr. Lau has over 18 years of experience in auditing, accounting and financial and corporate management. Mr. Lau graduated from the University of New South Wales with a bachelor of commerce degree in accounting and finance. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of the Institute of Chartered Accountants in England and Wales, Institute of Chartered Accountants in Australia, CPA Australia and a founding member of the Institute of Accountants Exchange. Before joining the Group, Mr. Lau was a partner at Ernst & Young (Assurance and Advisory Business Services) Hong Kong and Beijing and a regional director (China and Hong Kong) of the Institute of Chartered Accountants in English and Wales. Mr. Lau is an independent non-executive director of Chanjet Information Technology Company Limited (Stock code: 1588) since 2011.

Mr. Qiu Weifa ("Mr. Qiu")

Mr. Qiu, aged 71, was appointed as the INED on 19 September 2009 and resigned as the INED on 19 January 2016. 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. Chan Yuk Tong ("Mr. Chan")

Mr. Chan, aged 53, was appointed as the INED on 19 September 2009 and resigned as the INED on 2 January 2015. 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 has over 30 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)	Independent non-executive director	November 2006 to present
Ground Properties Company Limited (formerly known as China Motion Telecom International Limited)	Independent non-executive director	November 2013 to present

Listed Company	**Role**	**Period**
Kam Hing International Holding Limited	Independent non-executive director	March 2004 to present
Xinhua Winshare Publishing And Media Co., Ltd.	Independent non-executive director	April 2006 to July 2013; and from February 2016 to present
Past engagements within the last three years:		
Anhui Conch Cement Company Limited	Independent non-executive director	June 2006 to May 2012
BYD Electronic (International) Company Limited	Independent non-executive director	November 2007 to July 2013
Daisho Microline Holdings Limited	Independent non-executive director	September 2004 to August 2013
Global Sweeteners Holdings Limited	Independent non-executive director	June 2008 to December 2015
Golden Shield Holdings (Industrial) Limited	Non-executive director	June 2014 to 5 December 2014
Trauson Holdings Company Limited	Independent non-executive director	June 2010 to July 2013 (date of withdrawal of listing)

SENIOR MANAGEMENT

Mr. Wong Wei Hua Derek (“Mr. Wong”)

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

Mr. Liu, aged 52, is the executive director and executive vice president of Ausnutria China. 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 to the chief executive officer of Hunan Ava Nanshan Dairy Products Company Limited*（湖南亞華南山乳品營銷有限公司）("**Hunan Ava Nanshan Dairy**"), whose shares are listed on the Shenzhen Stock Exchange. Mr. Liu is primarily responsible for human resource planning, judicial affairs, public relations and administration of Ausnutria China.

Mr. Dai Zhiyong ("Mr. Dai")

Mr. Dai, aged 41, is the executive director and vice chairman of Ausnutria China and the general manager of the upstream supply subsidiary of Ausnutria China. 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 almost 20 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 upstream supply subsidiary of the Group and for ensuring the overall compliance status of the Group's new products and its development in the PRC.

Mr. Qu Zhishao ("Mr. Qu")

Mr. Qu, aged 38, is the vice-president of Ausnutria China and the general manager of Puredo Health Service (Changsha) Co., Ltd.（美納多健康服務（長沙）有限公司）, a non-wholly-owned subsidiary of Ausnutria China, and the chairman of Globlait Nutrition (Changsha) Co., Ltd. ("**Globlait Nutrition**")（澳優液態營養品（長沙）有限公司）, both companies are non-wholly owned subsidiaries of Ausnutria China. He joined the Group since the establishment of Ausnutria China and was the head of marketing department, regional manager, assistant to chief executive officer and sales director for south region, chief marketing officer and general manager of marketing department. 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 over 15 years of experience in the related industry.

Mr. Deng Shenhui ("Mr. Deng")

Mr. Deng, aged 42, is the chief operation officer of Ausnutria China. He joined the Group since August 2011. Mr. Deng graduated from Zhongnan University, majoring in computer sciences. Mr. Deng held positions at multiple foreign computer software consulting companies and has over ten years of experience in the industry. Mr. Deng served as the department manager at China Region, Asia Pacific Sales Services Department of Oracle Software Systems Co Ltd.（甲骨文軟體系統有限公司亞太區銷售服務部中國區）. Mr. Deng is mainly responsible for the management of the daily operations of Ausnutria China.

Mr. Xiao Guoxiong ("Mr. Xiao")

Mr. Xiao, aged 42, is the vice chairman of Ausnutria China and the general manager of the Allnutria division. He joined the Group since the establishment of Ausnutria China and served as the market project manager, sales director of northern China region, membership promotion director and general manager of the marketing department. Mr. Xiao graduated from a college, majoring in marketing, and has held positions in relation to the market development, marketing and promotion and sales management for liquid milk and high-end nutritional products since 1998. He has over 10 years of experience in the industry in relation to budgeting management and team performance management.

Mr. Liu Yubiao ("Mr. Liu")

Mr. Liu, aged 43, is the general manager of Hyproca Bioscience Co., Ltd. (海普諾凱生物科技有限公司), a non-wholly owned subsidiary of the Company. He joined the Group since the establishment of Ausnutria China and served as the manager of Hunan provincial region, manager of Central China region (covering five provinces) and deputy general manager of the Allnutria division. Mr. Liu has over 14 years of experience in sales and management in the dairy product industry. Mr. Liu is mainly responsible for the overall operations of Hyproca Bioscience Co., Ltd.

Ms. Li Yimin ("Ms. Li")

Ms. Li, aged 41, is the general manager of Hyproca Nutrition Co., Ltd, a non-wholly owned subsidiary of the Company. She joined the Group since February 2011. Ms. Li obtained a master degree in business administration from Sichuan University and held operational and managerial positions at various enterprises. Ms. Li is mainly responsible for the overall operation of Hyproca Nutrition Co., Ltd.

Mr. Chen Tiejun ("Mr. Chen")

Mr. Chen, aged 45, is the general manager of Globait Nutrition and mainly responsible for the overall operations of Globait Nutrition. He joined the Group since September 2015. Mr. Chen graduated from University of Quebec in Canada and obtained a master degree in business management. Mr. Chen held sales management position of Nestle China Co., Ltd. for almost 10 years, afterwards he worked in Yili Group Liquid Milk division* (伊利集團液態奶事業部) for 4 years, serving as the assistant of general manager of the East China marketing department and the nationwide senior training manager. Mr. Chen was also the marketing deputy director of the A-share listed Kingenta Ecological Engineering Group Co and was responsible for the work of corporate business college. After 2012, he worked in a well-known marketing consultancy in the PRC – 北京優識行銷管理諮詢有限公司 as the executive president and shareholder partner, focusing on corporate consultant training. Mr. Chen has over 20 years' of experience in the dairy industry.

Ms. Froukje Dijkstra ("Ms. Dijkstra")

Ms. Dijkstra, aged 46, is the chief operational officer of Ausnutria Hyproca. She joined the Ausnutria Hyproca Group since 2012. Ms. Dijkstra graduated in business administration. Before joining Ausnutria Hyproca, Ms. Dijkstra had over 20 years of experience in the chemical industry with different positions.

Directors' and Senior Management's Biographies

Mr. Evert Schilstra ("Mr. Schilstra")

Mr. Schilstra, aged 56, is the managing director of Hyproca Dairy B.V. and Hyproca Goat Milk B.V. He joined Ausnutria Hyproca in 1996. Mr. Schilstra graduated from the Bolsward Food Technology College in the Netherlands with a bachelor in food technology, specialized in the dairy industry. He has more than 33 years of experience in the dairy industry. Before joining Ausnutria Hyproca, he was engaged in the field of R&D, quality assurance, investment plans and operations and has worked for engineering, multinational and dairy companies in the Netherlands.

Dr. Alfred Haandrikman ("Dr. Haandrikman")

Dr. Haandrikman, aged 58, is the director 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 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")

Mr. Santinge, aged 53, is the group financial controller and compliance officer of Ausnutria Hyproca. He joined Ausnutria Hyproca since October 2012. Mr. Santinge graduated from Koninklijk Nivra – Nijenrode Business University in the Netherlands in 1991 and a chartered accountant. Before joining Ausnutria Hyproca, Mr. Santinge worked for 25 years for several auditing firms in the Netherlands.

* *For identification purposes only*

Corporate Governance Report

The Directors present the corporate governance report for the Year 2015.

CORPORATE GOVERNANCE PRACTICES

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

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

In the opinion of the Directors, the Company has complied with the respective code provisions of the CG Code during the Year 2015 and up to the date of this report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the Listing Rules as the standards for the Directors' dealings in the securities of the Company. Having made specific enquiry with all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code for the Year 2015 and up to the date of this report.

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

No incident of non-compliance with the Employees Written Guidelines by the relevant employees was noted by the Company for the Year 2015 and up to the date of this report.

BOARD OF DIRECTORS

Role and Function

The Board is responsible for the leadership and management of the Group's businesses as well as its strategic planning and performances. The management 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 nine members, including four executive Directors, two NEDs and three INEDs as at the date of this report. Save for Mr. Lin and Mr. Tsai both being the directors of BioEngine Capital, 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 34 of this report.

The members of the Board during the Year 2015 and up to the date of this report were as follows:

Executive Directors:
Mr. Yan Weibin
Mr. Lin Jung-Chin
Mr. Bartle van der Meer
Ms. Ng Siu Hung

Non-executive Directors:

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

Independent Non-executive Directors:

Ms. Ho Mei-Yueh	(Appointed on 19 January 2016)
Mr. Jason Wan	
Mr. Lau Chun Fai Douglas	(Appointed on 2 January 2015)
Mr. Qiu Weifa	(Resigned on 19 January 2016)
Mr. Chan Yuk Tong	(Resigned on 2 January 2015)

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

An annual review of the composition of the Board according to the board diversity policy was recently done on 30 March 2016 by the nomination committee of the Company.

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, the approval of the interim and final results and other disclosures to the public or regulators are reserved by the Board for consideration and approval. Matters not specifically reserved to the Board and necessary for the daily management and operation of the Group are delegated to the executive committee of the Board and senior management of the Company.

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

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. 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 of the Board and Chief Executive Officer

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

Non-Executive Directors and Independent Non-Executive Directors

The NEDs 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.

All the NEDs and the INEDs have entered into letters of appointment with the Company for a term of 2 years and are subject to retirement by rotation and eligible for re-election in accordance with the provisions of the Articles of Association.

The Company has received an annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules and considers that all INEDs to be independent in accordance with the definition of the Listing Rules for the Year 2015.

Appointment, Re-election and Removal of Directors

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

Remuneration of Directors and Senior Management

The remuneration of Directors and the members of the senior management by band for the Year 2015 is set out below:

Remuneration bands (HK$)	Number of persons
0 – 1,000,000	12
1,000,001 – 1,500,000	4
1,500,001 – 2,000,000	2
2,000,001 – 2,500,000	2
	20

Further particulars regarding Directors' and chief executive's remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 8 and 9 to the financial statements.

Board meetings

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

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

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

Directors' attendances at the Board meetings and AGMs for the Year 2015

		2015 Board meeting	2014 AGM*
Executive Directors:			
Mr. Yan Weibin		8/8	1/1
Mr. Lin Jung-Chin		8/8	1/1
Mr. Bartle van der Meer		8/8	1/1
Ms. Ng Siu Hung		8/8	1/1
Independent Non-executive Directors:			
Mr. Jason Wan		5/8	1/1
Mr. Lau Chun Fai Douglas	(appointed on 2 January 2015)	8/8	1/1
Mr. Qiu Weifa	(resigned on 19 January 2016)	8/8	1/1
Mr. Chan Yuk Tong	(resigned on 2 January 2015)	N/A	N/A

* Convened on 20 July 2015

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 2015, all the Directors had participated in or studied the materials provided for a series of continuous professional development courses 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 (the CG Code and Corporate Governance Report).

Directors' Responsibilities for Financial Reporting in respect of Financial Statements

The Directors acknowledged their responsibility for preparing consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant financial period. In preparing the consolidated financial statements for the Year 2015, the Directors ensured that the consolidated financial statements have been prepared in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis. The Directors are also responsible for the timely publication of the consolidated financial statements of the Group.

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

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

NOMINATION COMMITTEE

The nomination committee of the Company (the "**Nomination Committee**") 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 Nomination Committee on a regular basis and to recommend to the Board suitable candidates for directorship after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. The written terms of reference of the Nomination Committee are in line with the code provisions of the CG Code.

During the Year 2015, the Nomination Committee 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 2015, the number of the Nomination Committee meetings held and details of the attendance were as follows:

Committee member	Attendance
Mr. Yan Weibin *(Chairman)*	1/1
Mr. Jason Wan	1/1
Mr. Lau Chun Fai Douglas*	1/1
Mr. Chan Yuk Tong*	N/A
Mr. Qiu Weifa**	1/1

* On 2 January 2015, Mr. Chan Yuk Tong resigned as a member of the Nomination Committee and Mr. Lau Chun Fai Douglas was appointed as a member of the Nomination Committee.

** Subsequent to 31 December 2015, on 19 January 2016, Mr. Qiu Weifa resigned as a member of the Nomination Committee and Ms. Ho Mei-Yueh was appointed as a member of the Nomination Committee.

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

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "**Remuneration Committee**") comprises 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. The written terms of reference of the Remuneration Committee are in line with the code provisions of the CG Code.

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

During the Year 2015, the number of the Remuneration Committee meetings held and details of the attendance were as follows:

Committee member	Attendance
Mr. Lau Chun Fai Douglas *(Chairman)**	1/1
Mr. Yan Weibin	1/1
Mr. Jason Wan	1/1
Mr. Chan Yuk Tong*	N/A
Mr. Qiu Weifa**	1/1

* On 2 January 2015, Mr. Chan Yuk Tong resigned as a member and chairman of the Remuneration Committee and Mr. Lau Chun Fai Douglas was appointed as a member and chairman of the Remuneration Committee.

** Subsequent to 31 December 2015, on 19 January 2016, Mr. Qiu Weifa resigned as a member of the Remuneration Committee and Ms. Ho Mei-Yueh was appointed as a member of the Remuneration Committee.

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

AUDIT COMMITTEE

The audit committee of the Company (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. The written terms of reference of the Audit Committee are in line with the code provisions of the CG Code.

During the Year 2015, the number of the Audit Committee meetings held and details of the attendance were as follows:

Committee member	Attendance
Mr. Lau Chun Fai Douglas *(Chairman)**	3/3
Mr. Jason Wan	3/3
Mr. Chan Yuk Tong*	N/A
Mr. Qiu Weifa**	3/3

* On 2 January 2015, Mr. Chan Yuk Tong resigned as a member and chairman of the Audit Committee and Mr. Lau Chun Fai Douglas was appointed as a member and chairman of the Audit Committee.

** Subsequent to 31 December 2015, on 19 January 2016, Mr. Qiu Weifa resigned as a member of the Audit Committee and Ms. Ho Mei-Yueh was appointed as a member of the Audit Committee.

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2015 and the annual results for the Year 2015, internal control systems of the Group as well as considered and discussed with the external auditors regarding their re-appointment.

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

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 2015, 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

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

Type of Services	RMB'000
Annual audit services	3,577
Non-audit and other assurance services	2,060
Total	5,637

INTERNAL CONTROLS

The Directors have reviewed the effectiveness of the Group's internal control system, among others, the financial, operational and compliance controls and risk management functions. No material deficiencies have been identified during the review. Meanwhile, the Company had engaged external consultants to review particular aspects of the IT internal control system in response to the implementation of the ERP system in the PRC during the year. The relevant findings and recommendations have been reported to the Audit Committee and the Board. The management will deal with the areas for improvement that come to the attention of the Audit Committee and the Board. The Board is committed to improving the Group's internal control system on an ongoing basis.

SHAREHOLDERS' AND INVESTOR RELATIONS

The Board recognises the importance of maintaining clear, timely and effective communication with the Shareholders and investors. To the best belief of the Board, the Company has published all of its announcements in time in accordance with the Listing Rules. 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. The last Shareholders' meeting was the AGM held on 20 July 2015 at Aberdeen Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong for approval of, among other things, the audited consolidated financial statements and the Report of the Directors and of the Auditors for the Year 2014, the general mandates to issue Shares and repurchase Shares, 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 16 June 2015. All proposed ordinary resolutions were passed by way of poll at the AGM.

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

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

Constitutional Documents

During the Year 2015 and up to the date of this report, there had been no significant change in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS

How Shareholders can convene an Extraordinary General Meeting

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

The meeting shall be held within two months after the deposit of such requisition. If within 21 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 Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road 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 2015.

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 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Year 2015.

An analysis of the Group's performance for the Year 2015 by operating segment is set out in note 4 to the financial statements of this report.

RESULTS AND DIVIDENDS

The Group's results for the Year 2015 are set out in the financial statements on pages 64 to 71 of this report.

The Board is pleased to recommend the payment of a final dividend of HK$0.03 (Year 2014: Nil) per Share for the Year 2015 out of the Company's share premium account, subject to the approval of the Shareholders at the forthcoming AGM.

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 153 to 154 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 2015 are set out in note 13 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year 2015 are set out in note 29 to the financial statements.

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

Save for the issuance of 147,459,300 Consideration Shares under the Ausnutria Hyproca Acquisition and the 113,430,230 Offer Shares under the Open Offer, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Shares during the Year 2015 and up to the date of this report.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year 2015 are set out in note 41 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's accumulated losses amounted to RMB70,757,000 (31 December 2014: RMB58,290,000). As at 31 December 2015, the Company's share premium account available for distribution under certain conditions amounted to RMB945,159,000 (31 December 2014: RMB456,267,000), of which RMB25,967,000 (31 December 2014: Nil) has been proposed as a final dividend for the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year 2015, sales to the Group's five largest customers accounted for less than 18.7% (Year 2014: 17.5%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 8.8% (Year 2014: 5.3%). Purchases from the Group's five largest suppliers accounted for approximately 24.2% (Year 2014: 28.3%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 11.7% (Year 2014: 14.3%).

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 2015 and up to the date of this report were as follows:

Executive Directors:

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

Non-executive Directors:

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

Independent non-executive Directors:

Ms. Ho Mei-Yueh	(Appointed on 19 January 2016)
Mr. Jason Wan	
Mr. Lau Chun Fai Douglas	(Appointed on 2 January 2015)
Mr. Qiu Weifa	(Resigned on 19 January 2016)
Mr. Chan Yuk Tong	(Resigned on 2 January 2015)

In accordance with Articles 83(3) and 84 of the Articles of Association, Mr. Tsai Chang-Hai, Mr. Zeng Xiaojun, Ms. Ho Mei-Yueh, Ms. Ng Siu Hung and Mr. Jason Wan 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 2015 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 2015.

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Save for the related party transactions as set out in note 36 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 2015.

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

As at 31 December 2015, 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	Approximate percentage of issued share capital
Mr. Yan Weibin ("**Mr. Yan**")	106,539,085	Interest of a controlled corporation(1)	8.54%
Mr. Lin Jung-Chin ("**Mr. Lin**")	551,500	Interest of spouse(2)	0.04%
Mr. Bartle van der Meer ("**Mr. van der Meer**")	162,205,230	Interest of a controlled corporation(3)	13.00%

Notes:

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

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

3. The Shares are held by 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. Mr. van der Meer is therefore deemed to be interested in 162,205,230 Shares under the SFO.

Subsequent to 31 December 2015, on 21 January 2016, a total of 6,100,000 share options were granted to the Directors. Further details of the share options granted to the Directors are set out in the section headed "Share Option Scheme" of this report.

Save as disclosed above, as at 31 December 2015, 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 Ausnutria Hyproca Acquisition, the Open Offer and the granting of share options to the Directors after the reporting period, 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 2015, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as was known to, or can be ascertained after reasonable enquiry by the Directors, the following persons (other than the Directors and chief executive of the Company) had and interest or short position in the shares and underlying interests of 5% or more of the issued share capital of the Company were as follows:

Name	Number of ordinary share	Nature of interest	Approximate percentage of issued share capital
Ausnutria BVI (Note 1)	106,539,085	Registered owner	8.54%
BioEngine Capital (Note 2)	123,355,375	Registered owner	9.89%
Center Lab (Note 2)	361,738,129	Registered owner	28.99%
	144,193,643	Interest of controlled corporations	11.56%
DDI (Notes 3, 4 and 11)	162,205,230	Interest of controlled corporation	13.00%
Dutch Dairy Investments HK Limited (Note 4)	162,205,230	Registered owner	13.00%
Fan Deming BV (Notes 5, 7 and 11)	162,205,230	Interest of controlled corporation	13.00%
Manids B.V. (Notes 3, 6 and 11)	162,205,230	Interest of controlled corporation	13.00%

Name	Number of ordinary share	Nature of interest	Approximate percentage of issued share capital
PMH Investments BV (Notes 3, 7 and 11)	162,205,230	Interest of controlled corporation	13.00%
Reditus Holding BV (Notes 7, 8 and 11)	162,205,230	Interest of controlled corporation	13.00%
Ms. Chen Miaoyuan (Note 10)	106,539,085	Interest of spouse	8.54%
Mr. Durk Andries van der Meer (Notes 8, 9 and 11)	162,205,230	Interest of controlled corporation	13.00%
Mr. Ignatius Petrus Jorna (Notes 6 and 11)	162,205,230	Interest of controlled corporation	13.00%

Notes:

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

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

3. DDI is owned as to approximately 46.55% by each of PMH Investments BV and Manids B.V.

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

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

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

7. PMH Investments BV is owned as to 56.50% by Fen Deming BV and 39.90% by Reditus Holding BV.

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

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

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

11. DDI, PMH Investments BV, Manids B.V., Reditus Holding BV, Fan Deming BV, Mr. Durk Andries van der Meer, Mr. van der Meer and Mr. Ignatius Petrus Jorna are deemed to be interested in 162,205,230 Shares under the SFO.

Save as disclosed above, as at 31 December 2015, 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 NEDs (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 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 Scheme

No option has been granted or agreed to be granted under the Scheme during the Year 2015.

Subsequent to 31 December 2015, on 21 January 2016, options to subscribe for a total of 34,800,000 Shares of HK$0.10 each were granted to certain eligible participants pursuant to the Scheme, details as follows:

Grantees	Exercise price per option	Exercise period	Outstanding as at the date of this report
Directors			
Mr. Yan Weibin	HK$2.45	20 January 2017 – 20 January 2021	1,200,000
Mr. Lin Jung-Chin	HK$2.45	20 January 2017 – 20 January 2021	1,200,000
Mr. Bartle van der Meer	HK$2.45	20 January 2017 – 20 January 2021	1,200,000
Ms. Ng Siu Hung	HK$2.45	20 January 2017 – 20 January 2021	1,000,000
Mr. Tsai Chang-Hai	HK$2.45	20 January 2017 – 20 January 2021	300,000
Mr. Zeng Xiaojun	HK$2.45	20 January 2017 – 20 January 2021	300,000
Ms. Ho Mei-Yueh	HK$2.45	20 January 2017 – 20 January 2021	300,000
Mr. Jason Wan	HK$2.45	20 January 2017 – 20 January 2021	300,000
Mr. Lau Chun Fai Douglas	HK$2.45	20 January 2017 – 20 January 2021	300,000
			6,100,000
Other			
Continuous contract employees	HK$2.45	20 January 2017 – 20 January 2021	28,700,000
			34,800,000

CONNECTED TRANSACTIONS

First Shareholder Loan Agreement

On 7 June 2013, Ausnutria Dairy (Dutch) Coöperatief U.A. ("**Ausnutria (Dutch)**"), as the lender, Ausnutria Hyproca, as the borrower, and DDI entered into a shareholder loan agreement (the "**First Shareholder Loan Agreement**"), pursuant to which Ausnutria (Dutch) has provided a shareholder loan of EUR7.0 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 had been fulfilled and the First Shareholder Loan was extended accordingly.

Second Shareholder Loan Agreement

On 1 November 2013, Ausnutria (Dutch), as the lender, 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 EUR10.0 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.

On 31 October 2014, the conditions to extend the Second Shareholder Loan had been fulfilled and the Second Shareholder Loan was extended accordingly.

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, which was sold during the Year 2014. 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 the CEO. 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.

The above connected transactions ceased upon the completion of the Ausnutria Hyproca Acquisition on 15 September 2015.

Acquisition of the residual 49.0% equity interest in Ausnutria Hyproca

On 12 January 2015, a share purchase agreement (as supplemented by the supplemental share purchase agreement and the letter of exchange dated 28 May 2015 and 31 July 2015, respectively) were entered into among DDI, Ausnutria (Dutch), the Company and certain shareholders of DDI, for the acquisition of the residual 49.0% equity interest in Ausnutria Hyproca for a consideration of approximately HK$470.3 million by Ausnutria (Dutch). The consideration is to be settled as to HK$100,193,398 in cash and as to the remaining by the issuance of 147,459,300 Shares. Details of the Ausnutria Hyproca Acquisition are set out in the circular of the Company dated 30 June 2015. As at the date of this share purchase agreement, DDI is a 30%-controlled company (as defined in the Listing Rules) held by Mr. Bartle van der Meer, an executive Director. As such, DDI is a connected person of the Company. Accordingly, the share purchase agreement and the transaction contemplated thereunder constitute a connected transaction for the Company under Chapter 14A of the Listing Rules, and are subject to reporting, announcement and independent shareholders' approval requirements pursuant to the Listing Rules.

The Ausnutria Hyproca Acquisition was approved by the Shareholders at the extraordinary general meeting of the Company on 20 July 2015 and was completed on 15 September 2015.

Underwriting Agreement

On 28 October 2015, the Company and Center Lab entered into the Underwriting Agreement in respect of the Open Offer with no underwriting commission.

As at the date of the Underwriting Agreement, Center Lab is a Shareholder who, together with its two non-wholly-owned subsidiaries, are interested in a total of 448,517,964 Shares, representing approximately 39.5% interest of the Company, and Center Lab is held as to approximately 13.0% by Mr. Lin Jung-Chin (being the executive director of both the Company and Center Lab), Center Lab is a connected person of the Company. Accordingly, the transaction contemplated under the Underwriting Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.92(2) of the Listing Rules, the allotment and issue of the shares underwritten to Center Lab (as the underwriter) pursuant to the Underwriting Agreement were exempt from the reporting, announcement and independent Shareholders' approval requirements.

CONTINUING CONNECTED TRANSACTIONS

During the Year 2015, the date prior to when Ausnutria Hyproca becomes a wholly-owned subsidiary of the Company, the Company had the following continuing connected transactions.

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 Group excluding the Ausnutria Hyproca Group (the "**Ausnutria Group**"). The Framework Supply Agreement was 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 the CEO on 7 June 2013. As such, the transaction contemplated under the Framework Supply Agreement constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to the Framework Supply Agreement, it was agreed that any members of the Ausnutria Group and any members of the Ausnutria Hyproca Group may from time to time during the duration of the Framework Supply Agreement enter into contracts and/or purchase orders setting out the detailed terms for the procurement of paediatric milk formula products by any members of the Ausnutria Group from any members of the Ausnutria Hyproca Group, provided that such detailed terms shall not be inconsistent with the terms and conditions of the Framework Supply Agreement. The price at which the paediatric milk formula products are to be supplied by any members of the Ausnutria Hyproca Group to any members of the Ausnutria Group shall be at market price, or if the same is not available, a price which is no less favourable to the Ausnutria Group than the price at which the Ausnutria Group purchases similar paediatric milk formula products from independent third parties. Further details in relation to the Framework Supply Agreement are set out in the circular of the Company dated 18 November 2013.

The annual caps of total amount of supply under the Framework Supply Agreement for the Year 2014 and the Year 2015 are EUR25.8 million (equivalent to approximately HK$276.1 million) and EUR30.6 million (equivalent to approximately HK$327.4 million) respectively, and the actual aggregate amount of supply under the Framework Supply Agreement for the Year 2014 and the Year 2015 are EUR12.5 million (equivalent to approximately RMB101.3 million), and EUR14.1 million (equivalent to approximately RMB97.5 million) respectively.

The Framework Supply Agreement lapsed upon the completion of the Ausnutria Hyproca Acquisition on 15 September 2015.

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.

Ernst & Young 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. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions for the Year 2014 disclosed above in accordance with Rule 14A.56 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 36 to the financial statements constitute connected transactions of the Group. The Directors are also not aware any other transactions constitute connected transactions of the Group for the Year 2015, which are subject to reporting, announcement and independent shareholder's approval requirements under Chapter 14A of the Listing Rules. The Directors confirm that the Company has complied with the disclosure requirements of the connected transactions in accordance with chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the Year 2015, 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 prior to the completion of the Ausnutria Hyproca Acquisition, is deemed to have a competing interest with the business of the Group by such reason. Such competing interest ceased when Ausnutria Hyproca becomes a wholly-owned subsidiary of the Company upon completion of the Ausnutria Hyproca Acquisition.

Save as disclosed above, during the Year 2015 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

The Company extended the appointment of Asian Capital (Corporate Finance) Limited ("**ACCF**") as the Company's compliance advisor on an on-going basis for consultation on compliance with the Listing Rules for a period of two years commencing from 24 August 2015 (which the Company is entitled to terminate the appointment by serving two months prior notice in writing). During the term of the appointment, ACCF will be accountable to the Audit Committee. As notified by ACCF, during the Year 2015 and up to the date of this report, neither ACCF nor any of its directors, employees or associates had any interests in the Shares or 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 35 to 45 of this report.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 40 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
30 March 2016

Independent auditors' report

EY 安永

22/F, CITIC Tower
1 Tim Mei Avenue
Hong Kong

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 set out on pages 64 to 152, which comprise the consolidated statement of financial position as at 31 December 2015, 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 about 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 audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
REVENUE	5	2,103,534	1,966,047
Cost of sales		(1,513,568)	(1,398,842)
Gross profit		589,966	567,205
Other income and gains	5	45,652	29,325
Selling and distribution expenses		(497,613)	(336,000)
Administrative expenses		(116,281)	(105,285)
Other expenses		(8,907)	(11,621)
Finance costs	7	(16,045)	(10,310)
Share of profits of associates		7,019	3,959
Profit before tax	6	3,791	137,273
Income tax expense	10	(680)	(20,552)
PROFIT FOR THE YEAR		3,111	116,721
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT – basic and diluted	12	RMB4.90 cents	RMB9.14 cents
Profit/(loss) attributable to:			
Owners of the parent		50,645	90,219
Non-controlling interests		(47,534)	26,502
		3,111	116,721

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(16,997)	(31,617)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	(16,997)	(31,617)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Remeasurement gains/(losses) on the defined benefit plan	2,306	(3,047)
Income tax effect	(553)	731
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods	1,753	(2,316)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	(15,244)	(33,933)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	(12,133)	82,788
Total comprehensive income/(loss) attributable to:		
Owners of the parent	36,480	72,875
Non-controlling interests	(48,613)	9,913
	(12,133)	82,788

Consolidated Statement of Financial Position

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	586,296	483,162
Prepaid land lease payments	14	1,971	2,028
Goodwill	15	72,053	75,713
Other intangible assets	16	45,679	44,497
Investments in associates	17	32,312	30,101
Deferred tax assets	27	98,794	47,522
Total non-current assets		837,105	683,023
CURRENT ASSETS			
Inventories	18	579,857	515,559
Trade and bills receivables	19	185,396	163,562
Prepayments, deposits and other receivables	20	164,097	104,335
Tax recoverable		719	6,511
Pledged deposits	21	769,738	216,900
Time deposits	21	185,990	465,100
Cash and cash equivalents	21	307,620	278,277
Total current assets		2,193,417	1,750,244
CURRENT LIABILITIES			
Trade payables	22	172,692	184,215
Other payables and accruals	23	475,826	373,469
Derivative financial instruments	24	1,943	404
Interest-bearing bank loans and other borrowings	25	756,993	517,197
Tax payable		66,873	46,411
Total current liabilities		1,474,327	1,121,696
NET CURRENT ASSETS		719,090	628,548
TOTAL ASSETS LESS CURRENT LIABILITIES		1,556,195	1,311,571

Consolidated Statement of Financial Position

31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		1,556,195	1,311,571
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	25	189,176	51,864
Defined benefit plan	26	12,885	15,709
Deferred tax liabilities	27	26,591	29,070
Total non-current liabilities		228,652	96,643
Net assets		1,327,543	1,214,928
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	108,455	86,866
Reserves	30	1,204,224	1,020,894
		1,312,679	1,107,760
Non-controlling interests		14,864	107,168
Total equity		1,327,543	1,214,928

Mr. Yan Weibin
Director

Mr. Bartle van der Meer
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2015

	Attributable to owners of the parent								
	Share capital RMB'000 (note 29)	Share premium account RMB'000	Capital reserve RMB'000 (note 30)	Statutory surplus reserve RMB'000 (note 30)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015	86,866	456,267	16,974	52,161	(27,093)	522,585	1,107,760	107,168	1,214,928
Profit for the year	–	–	–	–	–	50,645	50,645	(47,534)	3,111
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	(15,918)	–	(15,918)	(1,079)	(16,997)
Remeasurement gains on the defined benefit plan, net of tax	–	–	–	–	–	1,753	1,753	–	1,753
Total comprehensive income for the year	–	–	–	–	(15,918)	52,398	36,480	(48,613)	(12,133)
Acquisition of non-controlling interests	12,114	291,942	(319,809)	–	(22,233)	–	(37,986)	(44,323)	(82,309)
Contribution from non-controlling shareholders	–	–	–	–	–	–	–	5,941	5,941
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	(5,309)	(5,309)
Issue of shares	9,475	198,969	–	–	–	–	208,444	–	208,444
Share issue expenses	–	(2,019)	–	–	–	–	(2,019)	–	(2,019)
Transfer from retained profits	–	–	–	12,076	–	(12,076)	–	–	–
At 31 December 2015	108,455	945,159*	(302,835)*	64,237*	(65,244)*	562,907*	1,312,679	14,864	1,327,543

	Attributable to owners of the parent								
	Share capital RMB'000 (note 29)	Share premium account RMB'000	Capital reserve RMB'000 (note 30)	Statutory surplus reserve RMB'000 (note 30)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014	86,866	456,267	14,310	48,136	(10,930)	515,161	1,109,810	84,656	1,194,466
Profit for the year	–	–	–	–	–	90,219	90,219	26,502	116,721
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	(16,163)	–	(16,163)	(15,454)	(31,617)
Remeasurement losses on the defined benefit plan, net of tax	–	–	–	–	–	(1,181)	(1,181)	(1,135)	(2,316)
Total comprehensive income for the year	–	–	–	–	(16,163)	89,038	72,875	9,913	82,788
Acquisition of a subsidiary	–	–	2,664	–	–	–	2,664	11,990	14,654
Contribution from non-controlling shareholders	–	–	–	–	–	–	–	609	609
Final 2013 dividend declared and paid	–	–	–	–	–	(77,589)	(77,589)	–	(77,589)
Transfer from retained profits	–	–	–	4,025	–	(4,025)	–	–	–
At 31 December 2014	86,866	456,267*	16,974*	52,161*	(27,093)*	522,585*	1,107,760	107,168	1,214,928

* These components of equity comprise the consolidated reserves of RMB1,204,224,000 (2014: RMB1,020,894,000) as at 31 December 2015 in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		3,791	137,273
Adjustments for:			
Finance costs	7	16,045	10,310
Share of profits of associates		(7,019)	(3,959)
Interest income	5	(31,578)	(22,821)
Depreciation	6	40,321	40,208
Amortisation of other intangible assets	6	4,717	8,277
Amortisation of prepaid land lease payments	6	57	57
Impairment of property, plant and equipment	6	–	260
Write-off of trade receivables	6	3,248	397
Write-off of other receivables	6	–	720
Write-down of inventories to net realisable value	6	99,820	7,172
Loss on disposal of property, plant and equipment	6	842	–
Loss on disposal of items of other intangible assets	6	460	442
		130,704	178,336
Increase in inventories		(177,877)	(243,771)
(Increase)/decrease in trade and bills receivables		(28,287)	3,770
(Increase)/decrease in prepayments, deposits and other receivables		(59,311)	7,750
(Decrease)/increase in trade payables		(5,186)	34,212
Increase in other payables and accruals		107,460	123,508
Cash generated from/(used in) operations		(32,497)	103,805
Interest received		28,420	23,751
Interest paid		(13,577)	(9,953)
Mainland China corporate income tax paid		(32,686)	(30,861)
Overseas tax refunded/(paid)		4,891	(863)
Net cash flows from/(used in) operating activities		(45,449)	85,879

Consolidated Statement of Cash Flows

Year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Net cash flows from/(used in) operating activities		(45,449)	85,879
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(157,240)	(206,500)
Proceeds from disposal of items of property, plant and equipment		–	10
Additions to other intangible assets	16	(8,122)	(7,178)
Increase in time deposits		(185,990)	(465,100)
Increase in pledged time deposits		(552,838)	(3,900)
Maturity of time deposits		465,100	496,295
Dividends received from associates		3,452	–
Investments in associates		–	(26,142)
Net cash flows used in investing activities		(435,638)	(212,515)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	29	208,444	–
Share issue expenses	29	(2,019)	–
New bank loans and other borrowings		527,541	312,627
Repayments of bank loans		(131,555)	(3,656)
Repayments of other borrowings		(3,954)	(2,588)
Acquisition of non-controlling interests		(82,309)	–
Contributions from non-controlling shareholders		5,941	609
Dividends paid to non-controlling shareholders		(5,309)	(77,589)
Interest element of finance lease rental payments		(952)	(607)
Net cash flows from financing activities		515,828	228,796
NET INCREASE IN CASH AND CASH EQUIVALENTS		34,741	102,160
Cash and cash equivalents at beginning of year		278,277	161,161
Effect of foreign exchange rate changes, net		(5,398)	14,956
CASH AND CASH EQUIVALENTS AT END OF YEAR		307,620	278,277
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	21	307,620	278,277

Notes to the Financial Statements

31 December 2015

1. CORPORATE AND GROUP 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 at Floor 8, XinDaXin Building, No. 168, HuangXing Road (M), Changsha City, Hunan Province, Mainland China; Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Central, Hong Kong; and at Dokter van Deenweg 150, 8025 BM Zwolle, the Netherlands. 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 and its subsidiaries are hereinafter collectively referred to as the Group.

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

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary shares/ registered capital	Percentage of equity interest attributable to the Group		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 Dairy (China) Co., Ltd.* ("**Ausnutria China**")	The PRC/Mainland China	RMB68,633,832	–	100	Production, marketing and distribution of paediatric nutrition products in Mainland China
Ausnutria Dairy (Dutch) Coöperatief U.A ("**Ausnutria (Dutch)**")	The Netherlands	EUR13,800,000	–	100	Investment holding
Ausnutria Hyproca B.V. ("**Ausnutria Hyproca**")	The Netherlands	EUR65,086,000	–	100#	Investment holding

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary shares/ registered capital	Percentage of equity interest attributable to the Group Direct	Indirect	Principal activities
Hyproca Nutrition Co., Ltd.** ("**HNC**")	The PRC/ Mainland China	RMB10,000,000	–	85	Marketing and distribution of goat milk based nutrition products in Mainland China
Hyproca Dairy B.V. ("**Hyproca Dairy**")	The Netherlands	EUR18,200	–	100	Manufacture of nutrition products
Lypack Leeuwarden B.V. ("**Lypack**")	The Netherlands	EUR18,151	–	100	Processing and packaging of nutrition products
Hyproca Nutrition B.V. ("**Hyproca Nutrition**")	The Netherlands	EUR18,000	–	100	Marketing and distribution of goat milk based nutrition products
Lyempf Kampen B.V. ("**Hyproca Lyempf**")	The Netherlands	EUR21,500	–	100	Manufacture of nutrition products
Neolac (Shanghai) Nutrition Co. Ltd.*	The PRC/ Mainland China	RMB10,000,000	–	100	Trading of nutrition products in Mainland China
Hyproca Nutrition East Limited	Hong Kong/Russia	HK$4,000,000	–	51	Trading of nutrition products in Russia
Hyproca Nutrition Middle East FZCO	Dubai	AED1,500,000	–	60	Trading of nutrition products in the Middle East
Hyproca Nutrition USA Inc.	United States	US$1	–	75	Trading of nutrition products in the United States
Hyproca Nutrition Canada Inc.	Canada	CAD100	–	75	Trading of nutrition products in Canada
Hyproca Bio-Science (Hunan) Company Limited	The PRC/ Mainland China	RMB10,000,000	–	85	Trading of nutrition products in Mainland China

* Wholly-foreign-owned enterprise

** Sino-foreign equity joint venture

\# On 15 September 2015, the Group completed the acquisition of the remaining 49% equity interest in Ausnutria Hyproca and Ausnutria Hyproca becomes an indirect wholly-owned subsidiary of the Company

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board (the "**IASB**"). 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 Group for the Year 2015. 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.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*
Annual Improvements to IFRSs 2010-2012 Cycle
Annual Improvements to IFRSs 2011-2013 Cycle

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The nature and the impact of each amendment is described below:

(a) Amendments to IAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group.

(b) The Annual Improvements to IFRSs 2010-2012 Cycle issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

- IFRS 8 Operating Segments: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.

- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.

- IAS 24 Related Party Disclosures: Clarifies that a management entity (i.e., an entity that provides key management personnel services) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities besides associates.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) The Annual Improvements to IFRSs 2011-2013 Cycle issued in December 2013 sets out amendments to a number of IFRSs. Details of the amendments that are effective for the current year are as follows:

- IFRS 3 Business Combinations: Clarifies that joint arrangements but not joint ventures are outside the scope of IFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.

- IFRS 13 Fair Value Measurement: Clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 or IAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which IFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in IFRS 13.

- IAS 40 Investment Property: Clarifies that IFRS 3, instead of the description of ancillary services in IAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group.

In addition, the Company has adopted the amendments to the Rules Governing the Listing of Securities (the "**Listing Rules**") issued by the Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 9	*Financial Instruments*[3]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[6]
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Expection*[1]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to IAS 1	*Disclosure Initiative*[1]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[1]
Amendments to IAS 1	*Disclosure Initiative*[1]
Amendments to IAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	*Amendments to a number of IFRSs*[1]
IFRS 16	*Lease*[4]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[2]

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

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

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

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

5 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

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

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

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During 2015, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

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

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

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

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

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

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In September 2015, the IASB issued an amendment to IFRS 15 regarding a one-year deferral of the mandatory effective date of IFRS 15 to 1 January 2018. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

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

(i) the materiality requirements in IAS 1;

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

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

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

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

The amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates and Joint Ventures* introduce minor clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the standards.

The IASB issued IFRS 16 *Leases* on 13 January 2016, which requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 *Leases*.

IAS 12 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments issued on 19 January 2016 clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

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

Non-patent technology

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

Trademarks

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

Software

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

Milk collection right

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

Research and development costs

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

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

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

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

Investments and other financial assets

Initial recognition and measurement

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

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

Subsequent measurement

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

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

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

Financial liabilities

Initial recognition and measurement

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Derivative financial instruments

Initial recognition and subsequent measurement

The Group's derivative financial instruments include interest rate swaps and call option. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

In case derivative financial instruments are used for hedging, any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

Government grants

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

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

Revenue recognition

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Defined contribution plans

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

Pension schemes

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

Defined benefit plan

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

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

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

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined benefit plan (continued)

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

Borrowing costs

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

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were 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. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the note 11 to the financial statements.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Foreign currencies

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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.

Estimation uncertainly

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainly (continued)

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2015 was RMB72,053,000 (2014: RMB75,713,000). Further details are given in note 15.

Impairment of non-financial assets (other than goodwill)

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

Impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of impairment requires management judgements and estimation. Where the actual outcome or expectation in future is different from the original estimates, such differences will impact on the carrying value of the trade receivables and impairment loss in the periods in which such estimates have been changed. No impairment loss was recognised as at 31 December 2015 (2014: Nil). Further details are contained in note 19.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainly (continued)

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are given in note 27.

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 2015 was RMB40,321,000 (2014: RMB40,208,000). Further details are contained in note 13.

Defined benefit plan

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

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 had two reportable operating segments in 2015 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 of dairy products in the Netherlands for sale to its worldwide customers as well as 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. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs as well as unallocated head office and corporate results are excluded from such measurement.

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

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

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2015

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

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2014

	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	575,560	1,390,487	1,966,047
Intersegment sales	–	101,274	101,274
	575,560	1,491,761	2,067,321
Reconciliation:			
Elimination of intersegment sales			(101,274)
Revenue from operations			1,966,047
Segment results	91,117	69,415	160,532
Reconciliation:			
Elimination of intersegment results			(11,649)
Interest income			22,821
Finance costs			(10,310)
Corporate and other unallocated expenses			(24,121)
Profit before tax			137,273
Segment assets	478,049	1,157,726	1,635,775
Reconciliation:			
Elimination of intersegment receivables			(189,827)
Corporate and other unallocated assets			987,319
Total assets			2,433,267
Segment liabilities	232,883	606,222	839,105
Reconciliation:			
Elimination of intersegment payables			(189,827)
Corporate and other unallocated liabilities			569,061
Total liabilities			1,218,339
Other segment information			
Impairment losses recognised in profit or loss	9,624	260	9,884
Impairment losses written back in profit or loss	–	(1,335)	(1,335)
Share of profits of associates	–	3,959	3,959
Investments in associates	–	26,142	26,142
Depreciation and amortisation	10,467	38,075	48,542
Capital expenditure*	24,863	188,815	213,678

* 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

	2015 RMB'000	2014 RMB'000
The PRC	1,233,968	1,080,192
European Union	599,097	536,681
Middle East	73,787	98,782
United States	66,897	103,996
Others	129,785	146,396
	2,103,534	1,966,047

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

(b) Non-current assets

	2015 RMB'000	2014 RMB'000
The PRC	80,714	78,295
The Netherlands	657,597	557,206
	738,311	635,501

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 (2014: Nil).

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Notes	2015 RMB'000	2014 RMB'000
Revenue			
Sale of goods		2,103,534	1,966,047
Other income and gains			
Interest income		31,578	22,821
Foreign exchange gains		3,414	–
Government grants	(i)	2,878	930
Compensation income from suppliers	(ii)	2,118	–
Insurance claim for business interruption		1,094	2,634
Management fees income from an associate		215	910
Others		4,355	2,030
Total other income and gains		45,652	29,325

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

(ii) In the year of 2012, one of the suppliers (the "**Supplier**") of Ausnutria Hyproca B.V. and its subsidiaries (collectively the "**Ausnutria Hyproca Group**") has notified the Ausnutria Hyproca Group that one of the raw materials that was previously delivered by the Supplier might have been contaminated. Compensation income from the Supplier represented the excess amount of compensation received from the Supplier over the cost that was recognised in prior years.

6. PROFIT BEFORE TAX

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

	Notes	2015 RMB'000	2014 RMB'000
Cost of inventories sold		1,413,748	1,391,670
Write-down of inventories to net realisable value		99,820	7,172
Cost of sales		1,513,568	1,398,842
Depreciation	13	40,321	40,208
Amortisation of lease prepayments for land use rights	14	57	57
Amortisation of other intangible assets	16	4,717	8,277
Research and development costs		18,995	15,933
Minimum lease payments under operating leases		3,935	2,909
Loss on disposal of property, plant and equipment*		842	–
Foreign exchange differences, net		(3,414)	74
Write-off of trade receivables*		3,248	397
Write-off of other receivables*		–	720
Loss on disposal of items of other intangible assets*		460	442
Impairment of property, plant and equipment*	13	–	260
Auditors' remuneration:			
Current charge for the year		5,637	3,551
Underprovisions in prior years		–	1,750
Advertising and promotion expenses		203,623	146,372
Professional fees for resumption*		–	9,449
Employee benefit expenses (including directors' remuneration) (note 8):			
Wages, salaries and staff welfare		250,108	215,189
Pension scheme contributions**		22,136	18,070
		272,244	233,259

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

** At 31 December 2015, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2014: Nil).

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2015 RMB'000	2014 RMB'000
Interest on bank loans, overdrafts and other loans	16,110	14,740
Interest on finance leases	952	607
Total interest expense on financial liabilities not at fair value through profit or loss	17,062	15,347
Less: Interest capitalised	(2,533)	(4,787)
	14,529	10,560
Other finance costs:		
Unrealised loss/(gain) on an interest rate swap (note 24)	1,516	(250)
	16,045	10,310

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Group	
	2015 RMB'000	2014 RMB'000
Fees	1,095	1,629
Other emoluments:		
Salaries, allowances and benefits in kind	2,101	2,442
Pension scheme contributions	14	14
	2,115	2,456
	3,210	4,085

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:

	2015 RMB'000	2014 RMB'000
Qiu Weifa	145	143
Jason Wan	145	143
Lau Chun Fai Douglas (appointed on 2 January 2015)	225	–
Chan Yuk Tong (resigned on 2 January 2015)	–	884
	515	1,170

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2015				
Executive directors:				
Yan Weibin	145	950	–	1,095
Lin Jung-Chin	145	–	–	145
Bartle van der Meer	145	757	–	902
Ng Siu Hung	145	394	14	553
	580	2,101	14	2,695

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

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2014				
Executive directors:				
Yan Weibin	143	420	–	563
Lin Jung-Chin				
(appointed on 12 December 2014)	6	–	–	6
Bartle van der Meer	143	1,634	–	1,777
Ng Siu Hung	143	388	14	545
	435	2,442	14	2,891
Non-executive director:				
Dai Li (resigned on 4 March 2014)	24	–	–	24
	459	2,442	14	2,915

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2014: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any director (2014: included one director), details of whose remuneration are set out in note 8 above. Details of the remuneration of the five (2014: four) non-director, highest paid employees for the year are as follows:

	2015 RMB'000	2014 RMB'000
Salaries, allowances and benefits in kind	7,266	5,505
Pension scheme contributions	592	680
Total	7,858	6,185

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

	Number of employees	
	2015	2014
Nil to HK$1,000,000	–	–
HK$1,000,001 to HK$1,500,000	1	–
HK$1,500,001 to HK$2,000,000	2	2
HK$2,000,001 to HK$2,500,000	2	2
Total	5	4

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 (2014: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Under the PRC income tax laws, enterprises are subject to corporate income tax ("**CIT**") at a rate of 25%. Under the Netherlands income tax laws, enterprises are subject to the Netherlands corporate income tax rate of 20% for the first EUR200,000 taxable profits and 25% for taxable profits exceeding EUR200,000. Under the USA tax laws, enterprises are subject to the USA corporate income tax rate of 34%. Under the Canada tax laws, enterprises are subject to the Canada corporate income tax rate of 38%.

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 was granted the preferential CIT tax rate of 15% for another three years ended 31 December 2015.

	2015 RMB'000	2014 RMB'000
Current charge for the year – Mainland China		
Charge for the year	46,204	40,480
Overprovision in prior years	–	(692)
Current charge for the year – The Netherlands		
Charge for the year	7,768	2,921
Overprovision in prior years	(427)	(871)
Deferred income tax (note 27)	(52,865)	(21,286)
Total tax charge for the year	680	20,552

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:

2015

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

2014

	Hong Kong		The Netherlands		Mainland China		Canada		USA		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	(5,321)		30,207		140,801		(4,410)		(6,545)		(17,459)		137,273	
Income tax at the statutory income tax rate	(878)	16.5	7,473	24.7	35,200	25.0	(1,676)	38.0	(2,225)	34.0	–	–	37,894	27.6
Tax effects on preferential tax rates	–	–	–	–	(10,115)	(7.2)	–	–	–	–	–	–	(10,115)	(7.4)
Non-deductible items and others, net	–	–	3,492	11.6	620	0.4	–	–	–	–	–	–	4,112	3.0
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiary	–	–	–	–	510	0.4	–	–	–	–	–	–	510	0.4
Profits attributable to associates	–	–	(990)	(3.3)	–	–	–	–	–	–	–	–	(990)	(0.7)
Additional deduction of expenses	–	–	(8,689)	(28.8)	(626)	(0.4)	–	–	–	–	–	–	(9,315)	(6.8)
Tax losses not recognized	878	(16.5)	–	–	–	–	–	–	–	–	–	–	878	0.6
Tax losses utilised from previous periods	–	–	(859)	(2.8)	–	–	–	–	–	–	–	–	(859)	(0.6)
Adjustments in respect of current tax in previous periods	–	–	(871)	(2,9)	(692)	(0.5)	–	–	–	–	–	–	(1,563)	(1.1)
Tax charge at the Group's effective rate	–	–	(444)	(1.5)	24,897	17.7	(1,676)	38.0	(2,225)	34.0	–	–	20,552	15.0

The share of tax attributable to associates amounting to RMB2,093,000 (2014: RMB990,000) is included in "Share of profits of associates" in the consolidated statement of profit or loss and other comprehensive income.

11. DIVIDENDS

	2015 RMB'000	2014 RMB'000
Proposed final – HK3 cent (2014: Nil) per ordinary share	25,967	–

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

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,033,178,472 (2014: 986,843,000) in issue during the year.

Earnings

	2015 RMB'000	2014 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	50,645	90,219

Shares

	2015	2014
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,033,178,472	986,843,000

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2015 and 2014 in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during those years.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2015							
At 31 December 2014 and 1 January 2015:							
Cost	201,422	181,049	5,881	16,337	17,387	137,879	559,955
Accumulated depreciation and impairment	(33,253)	(26,208)	(5,703)	(5,256)	(6,373)	–	(76,793)
Net carrying amount	168,169	154,841	178	11,081	11,014	137,879	483,162
At 1 January 2015, net of accumulated depreciation and impairment	168,169	154,841	178	11,081	11,014	137,879	483,162
Additions	5,640	9,474	1,693	6,040	330	134,063	157,240
Disposals	–	–	–	(162)	(680)	–	(842)
Depreciation provided during the year	(12,128)	(21,722)	(784)	(3,617)	(2,070)	–	(40,321)
Transfers	35,936	–	–	–	4,602	(40,538)	–
Exchange realignment	(5,230)	(7,327)	–	(350)	25	(61)	(12,943)
At 31 December 2015, net of accumulated depreciation and impairment	192,387	135,266	1,087	12,992	13,221	231,343	586,296
At 31 December 2015:							
Cost	236,902	180,700	7,574	21,157	21,639	231,343	699,315
Accumulated depreciation and impairment	(44,515)	(45,434)	(6,487)	(8,165)	(8,418)	–	(113,019)
Net carrying amount	192,387	135,266	1,087	12,992	13,221	231,343	586,296

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2014							
At 31 December 2013 and 1 January 2014:							
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
At 1 January 2014, net of accumulated depreciation and impairment	139,297	125,774	1,233	11,749	8,738	74,205	360,996
Additions	6,476	68,150	41	3,483	267	128,083	206,500
Disposals	–	(7)	–	(3)	–	–	(10)
Depreciation provided during the year	(11,987)	(21,941)	(1,096)	(3,251)	(1,933)	–	(40,208)
Impairment provided during the year	–	–	–	–	(260)	–	(260)
Transfers	49,057	–	–	–	4,145	(53,202)	–
Transfers to other intangible assets (note 16)	–	–	–	–	–	(1,096)	(1,096)
Exchange realignment	(14,674)	(17,135)	–	(897)	57	(10,111)	(42,760)
At 31 December 2014, net of accumulated depreciation and impairment	168,169	154,841	178	11,081	11,014	137,879	483,162
At 31 December 2014:							
Cost	201,422	181,049	5,881	16,337	17,387	137,879	559,955
Accumulated depreciation and impairment	(33,253)	(26,208)	(5,703)	(5,256)	(6,373)	–	(76,793)
Net carrying amount	168,169	154,841	178	11,081	11,014	137,879	483,162

The net carrying amount of the Group's fixed assets held under finance leases included in the total amount of machinery at 31 December 2015 was EUR2,590,000 (equivalent to approximately RMB18,377,000) (2014: EUR3,315,000, equivalent to approximately RMB24,715,000).

13. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2015, 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 EUR14,507,000 (equivalent to approximately RMB102,932,000) (2014: EUR14,766,000, equivalent to approximately RMB110,089,000) and EUR23,971,000 (equivalent to approximately RMB170,079,000) (2014: EUR28,391,000, equivalent to approximately RMB211,672,000), respectively, were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 25(b)).

The Group's land included in property, plant and equipment with a net carrying amount of EUR7,354,000 (equivalent to approximately RMB52,176,000) (2014: EUR7,354,000, equivalent to approximately RMB54,826,000) is situated in the Netherlands and is held as freehold land.

14. PREPAID LAND LEASE PAYMENTS

	2015 RMB'000	2014 RMB'000
Carrying amount at 1 January	2,085	2,142
Amortised during the year	(57)	(57)
Carrying amount at 31 December	2,028	2,085
Current portion included in prepayments, deposits and other receivables	(57)	(57)
Non-current portion	1,971	2,028

15. GOODWILL

	2015 RMB'000	2014 RMB'000
At 1 January:		
Cost	75,713	85,495
Accumulated impairment	–	–
Net carrying amount	75,713	85,495
Cost at 1 January, net of accumulated impairment	75,713	85,495
Exchange realignment	(3,660)	(9,782)
Cost at 31 December, net of accumulated impairment	72,053	75,713
At 31 December:		
Cost	72,053	75,713
Accumulated impairment	–	–
Net carrying amount	72,053	75,713

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the product cash-generating unit for impairment testing, which includes four subsidiaries, namely Hyproca Dairy, Lypack, Hyproca Nutrition. and 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% (2014: 10%). The growth rates used to extrapolate the cash flows of the product cash-generating unit beyond the five-year period are from 3% to 5%.

Assumptions were used in the fair value less costs to sell calculation of the product cash-generating unit for 31 December 2015. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

15. 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.

16. OTHER INTANGIBLE ASSETS

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

16. OTHER INTANGIBLE ASSETS (continued)

	Non-patent technology RMB'000	Trademarks RMB'000	Software RMB'000	Milk collection right RMB'000	Others RMB'000	Total RMB'000
31 December 2014						
Cost at 1 January 2014, net of accumulated amortisation	3,986	1,010	12,323	14,524	1,683	33,526
Additions	2,236	459	3,508	–	975	7,178
Acquisition of a subsidiary	–	–	–	16,366	–	16,366
Transfers from property, plant and equipment (note 13)	–	–	1,096	–	–	1,096
Disposals	–	–	–	–	(442)	(442)
Amortisation provided during the year	(451)	(266)	(3,142)	(4,051)	(367)	(8,277)
Exchange realignment	(593)	(71)	(737)	(3,342)	(207)	(4,950)
At 31 December 2014	5,178	1,132	13,048	23,497	1,642	44,497
At 31 December 2014:						
Cost	6,228	1,733	24,564	32,337	2,005	66,867
Accumulated amortisation	(1,050)	(601)	(11,516)	(8,840)	(363)	(22,370)
Net carrying amount	5,178	1,132	13,048	23,497	1,642	44,497

17. INVESTMENTS IN ASSOCIATES

	2015 RMB'000	2014 RMB'000
Share of net assets	26,248	26,076
Goodwill on acquisition	6,064	4,025
	32,312	30,101

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

17. INVESTMENTS IN ASSOCIATES (continued)

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

	2015 RMB'000	2014 RMB'000
Share of the associates' profit for the year	7,019	3,959
Share of the associates' total comprehensive income	7,019	3,959
Aggregate carrying amounts of the Group's investments in the associates	32,312	30,101

18. INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials	213,031	184,909
Finished goods	361,850	326,969
Others	4,976	3,681
Total	579,857	515,559

At 31 December 2015, certain of the Group's inventories that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR55,063,000 (equivalent to approximately RMB390,683,000) (2014: EUR40,879,000, equivalent to approximately RMB304,777,000) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 25(b)).

19. TRADE AND BILLS RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade receivables	145,552	124,115
Bills receivable	39,844	39,447
Total	185,396	163,562

19. TRADE AND BILLS RECEIVABLES (continued)

The Group normally allows a credit period from 1 to 12 months (2014: from 1 to 12 months) to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables, amounts due from associates of EUR271,000 (equivalent to approximately RMB1,923,000) (2014: EUR602,000, equivalent to approximately RMB4,491,000) are repayable on similar credit terms to those offered to the major customers of the Group.

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

	2015 RMB'000	2014 RMB'000
Within 3 months	133,170	106,602
3 to 6 months	6,807	11,396
6 months to 1 year	3,112	3,146
Over 1 year	2,463	2,971
Total	145,552	124,115

There was no provision for impairment as at 31 December 2015 (2014: Nil). The carrying amounts of the trade and bills receivables approximate to their fair values.

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

	2015 RMB'000	2014 RMB'000
Neither past due nor impaired	136,246	105,788
Within 3 months past due	7,558	13,370
3 months to 1 year past due	1,748	4,957
Total	145,552	124,115

19. TRADE AND BILLS RECEIVABLES (continued)

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

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

At 31 December 2015, certain of the Group's trade receivables that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR17,896,000 (equivalent to approximately RMB126,976,000) (2014: EUR14,786,000, equivalent to approximately RMB110,239,000) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 25(b)).

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Prepayments to suppliers	51,870	15,298
Insurance claims	6,095	26,691
Interest income receivable	16,822	13,664
Other tax recoverable	20,661	15,113
Others	68,649	33,569
	164,097	104,335

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

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

	Note	2015 RMB'000	2014 RMB'000
Cash and bank balances		307,620	278,277
Time deposits		955,728	682,000
		1,263,348	960,277
Less: Pledged deposits	25(b)(v)	(769,738)	(216,900)
Non-pledged time deposits with maturity of between 3 months to 12 months		(185,990)	(465,100)
Cash and cash equivalents		307,620	278,277

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB186,210,000 (2014: RMB260,679,000). In addition, all the time deposits of the Group were denominated in RMB. The RMB is not freely convertible in the international market. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to convert RMB into other currencies through banks to conduct foreign exchange business.

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

22. TRADE PAYABLES

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

	2015 RMB'000	2014 RMB'000
Within 12 months	170,769	184,107
Over 12 months	1,923	108
	172,692	184,215

22. TRADE PAYABLES (continued)

Included in the trade payables, amount due to associates of EUR438,000 (equivalent to approximately RMB3,108,000) (2014: EUR4,215,000, equivalent to approximately RMB31,425,000) are repayable within 45 days.

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

23. OTHER PAYABLES AND ACCRUALS

	2015 RMB'000	2014 RMB'000
Advances from customers	151,562	81,546
Deferred income	115,975	99,480
Deposits	12,686	13,705
Accrued salaries and welfare	42,478	35,650
Other tax payables	11,749	18,393
Provision for claims from customers	–	11,929
Other payables	50,899	39,354
Accruals	90,477	73,412
	475,826	373,469

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

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2015 RMB'000	2014 RMB'000
Interest rate swaps entered into by the Ausnutria Hyproca Group	1,943	404

The Ausnutria Hyproca Group has entered into various interest rate swap contracts to manage its interest rate exposures. These interest rate swaps are measured at fair value through profit or loss. A net fair value loss on these interest rate swaps amounting to RMB1,516,000 (2014: gain of RMB250,000) and a net exchange loss amounting to RMB23,000 (2014: gain of RMB62,000) were recognised in profit or loss for the year ended 31 December 2015.

25. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

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

	2015			2014		
	Annual effective interest rate (%)	Maturity	RMB'000	Annual effective interest rate (%)	Maturity	RMB'000
Current						
Finance lease payables (note 28)	3.0 – 4.56	2016	3,829	3.0 – 4.56	2015	4,271
Bank overdrafts – secured	1 month EURIBOR+1.8	2016	56,655	1 month EURIBOR+2.0	2015	187,325
Bank loan – secured	3 month LIBOR+1.0 to 3 month LIBOR+2.2	2016	437,561	3 month LIBOR+1.0 to 3 month LIBOR+2.2	2015	149,112
Bank loan – secured	3 month HIBOR+1.7	2016	92,156	3 month HIBOR+2.1	2015	86,779
Bank loan – secured	12 month HIBOR+1.7	2016	112,598	12 month HIBOR+2.55	2015	31,556
Current portion of long-term bank loans – secured	–	–	–	4.45*	2015	1,864
Current portion of long-term bank loans – secured	3 month EURIBOR+2.35	2016	18,747	1 month EURIBOR+2.0	2015	1,491
Other loans – unsecured** (note 36(b)(i))	2.0	2016	35,447	2.0	2015	54,799
			756,993			517,197
Non-current						
Finance lease payables (note 28)	3.0 – 4.56	2017-2020	14,549	3.0 – 4.56	2016-2020	20,444
Bank loans – secured	–	–	–	4.45*	2016-2017	3,728
Bank loans – secured	3 month EURIBOR+2.35	2017-2020	170,979	1 month EURIBOR+2.0	2016-2017	23,858
Other loans – unsecured***	6.0	2017-2018	519	6.0	2016-2018	546
Other loans – unsecured***	3 month EURIBOR+3.0	2017	3,129	3 month EURIBOR+3.0	2016-2017	3,288
			189,176			51,864
			946,169			569,061

* Include the effects of related interest rate swaps as further detailed in note 24 to the financial statements

** Loans from Dutch Dairy Investments B.V. ("**DDI**"), a former non-controlling shareholder of Ausnutria Hyproca. In September 2015, the Company completed the Ausnutria Hyproca Acquisition and DDI became a shareholder of the Company thereafter.

*** Loans from non-controlling shareholders of subsidiaries

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

	2015 RMB'000	2014 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	717,717	458,127
In the second year	37,495	3,355
In the third to fifth years, inclusive	133,484	24,231
	888,696	485,713
Other borrowings repayable:		
Within one year or on demand	39,276	59,070
In the second year	7,114	4,524
In the third to fifth years, inclusive	10,651	16,571
After five years	432	3,183
	57,473	83,348
	946,169	569,061

Notes:

(a) The Group's bank overdraft facilities that were attributed to the Ausnutria Hyproca Group amounting to EUR20,000,000 (equivalent to approximately RMB141,904,000) (2014: EUR27,000,000, equivalent to approximately RMB201,301,000), of which EUR7,985,000 (equivalent to approximately RMB56,655,000) (2014: EUR25,125,000, equivalent to approximately RMB187,325,000) had been utilised as at 31 December 2015.

(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 EUR14,507,000 (equivalent to approximately RMB102,932,000) (2014: EUR14,766,000 (equivalent to approximately RMB110,089,000));

(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 EUR23,971,000 (equivalent to approximately RMB170,079,000) (2014: EUR28,391,000 (equivalent to approximately RMB211,672,000));

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

Notes: (continued)

(b) (continued)

(iii) pledges of the Ausnutria Hyproca Group's inventories, which had an aggregate carrying value at the end of the reporting period of EUR55,063,000 (equivalent to approximately RMB390,683,000) (2014: EUR40,879,000 (equivalent to approximately RMB304,777,000));

(iv) pledges of the Ausnutria Hyproca Group's trade receivables, which had an aggregate carrying value at the end of the reporting period of EUR17,896,000 (equivalent to approximately RMB126,976,000) (2014: EUR14,786,000 (equivalent to approximately RMB110,239,000)); and

(v) pledges of certain of the Ausnutria Group's time deposits amounting to RMB769,738,000 (2014: RMB216,900,000).

(c) Except for two bank loans with a total of HK$244,400,000 (equivalent to approximately RMB204,753,000) (2014: HK$150,000,000, equivalent to approximately RMB118,335,000) which are denominated in Hong Kong dollars, all borrowings are denominated in Euro.

26. DEFINED BENEFIT PLAN

Hyproca Dairy operates an unfunded defined benefit plan for all its qualifying employees. Under the plan, the employees are entitled to retirement benefits at rates varying from 0% to 70% of their final salaries on attainment of a retirement age of 67 (2014: age of 67).

The employees who participate in this defined benefit plan moved to another pension plan which was treated as defined contribution plan as from 1 January 2015. All rights from previous years will remain in the old defined benefit plan. Sensitivity on future salary and pension costs is not applicable for the Group's defined benefit plan.

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

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

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

The most recent actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out on 31 December 2015 by the appraiser, using the projected unit credit actuarial valuation method.

26. DEFINED BENEFIT PLAN (continued)

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

	2015	2014
Discount rate (%)	2.50	1.90
Expected rate of future pension cost increases (%)	0.00	0.00
Expected rate of salary increases (%)	2.50	2.50

The actuarial valuation showed that the market value of plan assets was RMB25,266,000 (2014: RMB30,016,000) and that the actuarial value of these assets represented 66.2% (2014: 65.6%) of the benefits that had accrued to qualifying employees. The deficiency of RMB12,885,000 (2014: RMB15,709,000) is expected to be cleared over the remaining life expectancy (based on unconditional future indexations for active and post-active participants).

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

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

	Increase in rate %	Increase/ (decrease) in defined benefit obligations RMB'000	Decrease in rate %	Increase/ (decrease) in defined benefit obligations RMB'000
2014				
Discount rate	0.25	(3,124)	0.25	2,900

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

26. DEFINED BENEFIT PLAN (continued)

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

	2015 RMB'000	2014 RMB'000
Current service cost	21	(2,820)
Interest cost	276	610
Net benefit expenses	297	(2,210)
Recognised in cost of sales	297	(2,210)
Recognised in administrative expenses	–	–
	297	(2,210)

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

	2015 RMB'000	2014 RMB'000
At 1 January	45,725	38,366
Current service cost	21	(2,820)
Interest cost	(4,688)	16,242
Benefit paid	(552)	(618)
Exchange differences on a foreign plan	(2,355)	(5,445)
At 31 December	38,151	45,725

26. DEFINED BENEFIT PLAN (continued)

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

2015

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

2014

		Pension cost charged to profit or loss				Remeasurement gains/(losses) in other comprehensive income							
	1 January 2014 RMB'000	Service cost RMB'000	Net interest expense RMB'000	Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Return on plan assets (excluding amounts included in net interest expense) RMB'000	Actuarial changes arising from changes in demographic assumptions RMB'000	Actuarial changes arising from changes in financial assumptions RMB'000	Experience adjustments RMB'000	Sub-total included in other comprehensive income RMB'000	Contribution by employer RMB'000	Foreign exchange difference RMB'000	31 December 2014 RMB'000
Defined benefit obligations	(38,366)	2,820	(1,105)	1,715	618	–	171	(12,448)	(2,860)	(15,137)	–	5,445	(45,725)
Fair value of plan assets	19,912	–	495	495	(618)	12,090	–	–	–	12,090	1,528	(3,391)	30,016
Benefit liability	(18,454)	2,820	(610)	2,210	–	12,090	171	(12,448)	(2,860)	(3,047)	1,528	2,054	(15,709)

The fair value of the total plan assets at 31 December 2015 was RMB25,266,000 (2014: RMB30,016,000).

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

	2015 RMB'000	2014 RMB'000
Within the next 12 months	504	596
Between 2 and 5 years	1,540	2,058
Between 5 and 10 years	3,285	5,040
Total expected contributions	5,329	7,694

The average duration of the defined benefit obligations at the end of the reporting period was 17.4 (2014: 25.3) years.

27. DEFERRED TAX

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

Deferred tax liabilities

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

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Milk collection right RMB'000	Withholding taxes RMB'000	Total RMB'000
31 December 2014					
At 1 January 2014	5,872	11,780	848	11,739	30,239
Deferred tax charged/(credited) to profit or loss during the year (note 10)	(930)	(1,699)	(648)	510	(2,767)
Arising on acquisition of a subsidiary	–	–	3,928	–	3,928
Exchange difference	(595)	(1,208)	(527)	–	(2,330)
Gross deferred tax liabilities at 31 December 2014	4,347	8,873	3,601	12,249	29,070

27. DEFERRED TAX (continued)

Deferred tax assets

2015

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

2014

	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 2014							
At 1 January 2014	4,429	7,188	26	6,240	11,760	195	29,838
Deferred tax credited/(charged) to profit or loss during the year (note 10)	(897)	3,958	1,460	7,621	6,112	265	18,519
Deferred tax charged to equity during the year	731	–	–	–	–	–	731
Exchange difference	(493)	(1,029)	–	–	–	(44)	(1,566)
Gross deferred tax assets at 31 December 2014	3,770	10,117	1,486	13,861	17,872	416	47,522

27. DEFERRED TAX (continued)

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

The Group has tax losses arising in Hong Kong of RMB8,103,000 (2014: RMB6,160,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of RMB8,834,000 (2014: Nil) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by the subsidiary established in Mainland China in respect of earnings generated from January 2008. The applicable rate for the Group is 10% (2014: 10%).

As at 31 December 2015, the Group has not recognised deferred tax liabilities of RMB53,315,000 (2014: RMB34,400,000) in respect of temporary differences relating to the unremitted earnings of subsidiaries, amounting to RMB533,154,000 (2014: RMB343,966,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

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

28. FINANCE LEASE PAYABLES

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

At 31 December 2015, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 2015 RMB'000	Minimum lease payments 2014 RMB'000	Present value of minimum lease payments 2015 RMB'000	Present value of minimum lease payments 2014 RMB'000
Amounts payable:				
Within one year	4,476	5,195	3,829	4,271
In the second year	4,476	4,957	3,985	4,524
In the third to fifth years, inclusive	10,671	13,957	10,132	12,737
After five years	432	3,488	432	3,183
Total minimum finance lease payments	20,055	27,597	18,378	24,715
Future finance charges	(1,677)	(2,882)		
Total net finance lease payables	18,378	24,715		
Portion classified as current liabilities (note 25)	(3,829)	(4,271)		
Non-current portion (note 25)	14,549	20,444		

29. SHARE CAPITAL

Shares

	2015		2014	
	HK$'000	RMB'000 equivalent	HK$'000	RMB'000 equivalent
Issued and fully paid:				
1,247,732,530 (2014: 986,843,000) ordinary shares	124,773	108,455	98,684	86,866

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

	Number of shares in issue	Share capital RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2014, 31 December 2014 and 1 January 2015	986,843,000	86,866	456,267	543,133
Acquisition of non-controlling interests (Note (a))	147,459,300	12,114	291,942	304,056
Issue of shares (Note (b))	113,430,230	9,475	198,969	208,444
	1,247,732,530	108,455	947,178	1,055,633
Share issue expenses	–	–	(2,019)	(2,019)
At 31 December 2015	1,247,732,530	108,455	945,159	1,053,614

Notes:

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

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

Further details of the Open Offer were set out in the prospectus of the Company dated 27 November 2015.

30. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 68 to 69 of the financial statements.

(i) Capital reserve

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

(ii) Statutory surplus reserve

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

31. PARTLY-OWNED SUBSIDIARY WITH MATERIAL NON-CONTROLLING INTERESTS

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

	2015	2014
Percentage of equity interest held by non-controlling interests:		
HNC	15%*	56.6%

	2015 RMB'000	2014 RMB'000
Profit for the year allocated to non-controlling interests:		
HNC	10,438	16,885
Accumulated balances of non-controlling interests at the reporting dates:		
HNC	12,686	28,319

* HNC is indirectly 85%-owned as to by Ausnutria Hyproca. As a result of the completion of the Ausnutria Hyproca Acquisition during the year, the equity interest held by the non-controlling shareholders of HNC decreased from approximately 56.6% to 15%.

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

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

	2015 RMB'000	2014 RMB'000
Revenue	461,043	259,371
Total expenses	(391,457)	(229,565)
Profit for the year	69,586	29,806
Total comprehensive income for the year	69,586	29,806
Current assets	250,378	123,358
Non-current assets	22,012	13,777
Current liabilities	(186,412)	(86,636)
Non-current liabilities	(1,402)	(510)
Net cash flows from operating activities	128,268	14,484
Net cash flows used in investing activities	(20,428)	(66)
Net cash flows from financing activities	–	–
Net increase in cash and cash equivalents	107,840	14,418

32. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (2014: Nil).

33. PLEDGE OF ASSETS

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

34. 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:

	2015 RMB'000	2014 RMB'000
Within one year	4,981	3,377
In the second to fifth years, inclusive	11,289	4,487
After five years	–	118
	16,270	7,982

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the end of the reporting period:

	2015 RMB'000	2014 RMB'000
Contracted, but not provided for:		
Plant and machinery	172,859	2,315
Buildings	–	37,636
	172,859	39,951

36. RELATED PARTY TRANSACTIONS

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

	Notes	2015 RMB'000	2014 RMB'000
Purchases of products from the associates	(i)	184,878	122,800
Sales of products to the associates	(i)	31,872	18,086
Management fees received from the associates	(ii)	215	910
Management fees paid to BioEngine Technology Development Inc. ("**BioEngine Tech**")	(iii)	1,920	–
Interest expense to DDI	b(i)	1,333	278

Notes:

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

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

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

(b) Outstanding balances with related parties:

(i) As detailed in note 25, the Ausnutria Hyproca Group had two shareholders' loans due to DDI, with an aggregate amount of EUR4,996,000 (equivalent to RMB35,447,000) (2014: EUR7,350,000, equivalent to RMB54,799,000) as at the end of the reporting period. The balances are unsecured, bear interest at 2.0% per annum and repayable in April 2016.

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

36. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

	2015 RMB'000	2014 RMB'000
Salaries, allowances and benefits in kind	15,239	17,427
Retirement benefit contributions	888	1,294
Total compensation paid to key management personnel	16,127	18,721

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

37. 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:

2015

Financial assets

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

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

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

2014

Financial assets

	Loans and receivables RMB'000
Trade and bills receivables	163,562
Financial assets included in prepayments, deposits and other receivables	40,355
Pledged deposits	216,900
Time deposits	465,100
Cash and cash equivalents	278,277
	1,164,194

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade payables	–	184,215	184,215
Financial liabilities included in other payables and accruals	–	64,988	64,988
Derivative financial instruments	404	–	404
Interest-bearing bank loans and other borrowings	–	569,061	569,061
	404	818,264	818,668

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

	Carrying amounts		**Fair values**	
	2015 RMB'000	2014 RMB'000	**2015 RMB'000**	2014 RMB'000
Financial liabilities				
Derivative financial instruments	**1,943**	404	**1,943**	404
Interest-bearing bank loans and other borrowings	**946,169**	569,061	**935,602**	566,627
	948,112	569,465	**937,545**	567,031

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

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

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

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

The fair values of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2015 was assessed to be insignificant.

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

As at 31 December 2015, the marked to market value of the derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

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

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 2015

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

As at 31 December 2014

	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	–	404	–	404

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 (2014: Nil).

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

Interest rate risk

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

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

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2015		
EUR	**100**	**(6,536)**
EUR	**(100)**	**6,536**
HK$	**100**	**(3,762)**
HK$	**(100)**	**3,762**
2014		
EUR	100	(5,328)
EUR	(100)	5,328
HK$	100	(2,480)
HK$	(100)	2,480

39. 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.

Credit risk

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

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

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 19 to the financial statements.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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:

	2015					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	29	170,577	621	1,465	–	172,692
Finance lease payables	–	–	4,476	15,147	432	20,055
Financial liabilities included in other payables and accruals	27,682	42,499	–	–	–	70,181
Derivative financial instruments	–	1,943	–	–	–	1,943
Interest-bearing bank loans and other borrowings	56,656	–	702,729	192,767	–	952,152
Total	84,367	215,019	707,826	209,379	432	1,217,023

	2014					
	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	31,455	152,186	574	–	–	184,215
Finance lease payables	–	–	5,195	18,914	3,488	27,597
Financial liabilities included in other payables and accruals	25,634	39,354	–	–	–	64,988
Derivative financial instruments	–	404	–	–	–	404
Interest-bearing bank loans and other borrowings	187,326	–	329,639	32,460	–	549,425
Total	244,415	191,944	335,408	51,374	3,488	826,629

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 31 December 2014.

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

	2015 RMB'000	2014 RMB'000
Interest-bearing bank loans and other borrowings	946,169	569,061
Less: Pledged deposits	(769,738)	(216,900)
Time deposits	(185,990)	(465,100)
Cash and cash equivalents	(307,620)	(278,277)
Net debt	(317,179)	(391,216)
Total assets	3,030,522	2,433,267
Gearing ratio	N/A	N/A

40. EVENTS AFTER THE REPORTING PERIOD

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

(a) On 21 January 2016, the Company announced that options (the "**Options**") to subscribe for a total of 34,800,000 ordinary shares of HK$0.10 each in the capital of the Company were granted to certain eligible participants pursuant to the share option scheme adopted by the Company on 19 September 2009. Among the total of 34,800,000 Options granted, 28,700,000 were granted to employees of the Company and 6,100,000 were granted to the Directors. Exercise price of the Options granted is HK$2.45 per share.

One-third of the Options shall be exercisable from the first anniversary of the date of grant; a further one-third of the Options shall be exercisable from the second anniversary of the date of grant; and the remaining Options shall be exercisable from the third anniversary of the date of grant.

Further details regarding the Options are set out in the announcement of the Company dated 21 January 2016.

(b) On 23 January 2016, Ausnutria China entered into a memorandum of understanding with Scient International Group Limited, an indirect wholly-owned subsidiary of Yashili International Holdings Ltd, a company listed on the Stock Exchange, in relation to the proposed acquisition of the entire equity interests in Scient (China) Baby Nourishment Co., Ltd. ("**Scient China**") (the "**Proposed Acquisition**"). Scient China, a wholly-owned subsidiary of Scient International Group Limited, was established in the PRC and has been principally engaged in the production and sale of paediatric milk formula products. The total consideration will be negotiated between the parties based on the appraised value of the entire equity interests in Scient China to be produced by an independent qualified appraisal company in Hong Kong. The Company is of the view that the Proposed Acquisition will facilitate the long-term strategic development of the Group as well as to cope with the growing demand of the Group's own brands products in the PRC.

Further details regarding the Proposed Acquisition are set out in the announcements of the Company dated 24 January 2016 and 29 February 2016.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS		
Investments in subsidiaries	171,320	171,320
Total non-current assets	171,320	171,320
CURRENT ASSETS		
Due from subsidiaries	907,024	442,365
Prepayments, deposits and other receivables	482	1,936
Cash and cash equivalents	69,307	3,926
Total current assets	976,813	448,227
CURRENT LIABILITIES		
Due to subsidiaries	30,104	31,852
Other payables	1,952	1,406
Total current liabilities	32,056	33,258
NET CURRENT ASSETS	944,757	414,969
TOTAL ASSETS LESS CURRENT LIABILITIES	1,116,077	586,289
Net assets	1,116,077	586,289
EQUITY		
Issued capital	108,455	86,866
Reserves	1,007,622	499,423
Total equity	1,116,077	586,289

Mr. Yan Weibin
Director

Mr. Bartle van der Meer
Director

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

Note:

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

	Share premium RMB'000	Capital reserve* RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 1 January 2014	456,267	171,320	(42,862)	(71,391)	513,334
Total comprehensive loss for the year	–	–	(15,428)	1,517	(13,911)
At 31 December 2014 and 1 January 2015	456,267	171,320	(58,290)	(69,874)	499,423
Total comprehensive loss for the year	–	–	(12,467)	31,774	19,307
Issues of shares	196,950	–	–	–	196,950
Acquisition of non-controlling interest	291,942	–	–	–	291,942
At 31 December 2015	945,159	171,320	(70,757)	(38,100)	1,007,622

* 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.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2016.

Five Year Financial Summary

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

	Year ended 31 December				
	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000
RESULTS					
REVENUE	2,103,534	1,966,047	1,687,781	1,350,996	629,214
Cost of sales	(1,513,568)	(1,398,842)	(1,216,026)	(1,024,803)	(409,742)
Gross profit	589,966	567,205	471,755	326,193	219,472
Other income and gains	45,652	29,325	25,884	22,222	25,976
Selling and distribution expenses	(497,613)	(336,000)	(227,757)	(156,355)	(127,318)
Administrative expenses	(116,281)	(105,285)	(84,742)	(74,533)	(44,446)
Other expenses	(8,907)	(11,621)	(20,939)	(27,807)	(19,493)
Finance costs	(16,045)	(10,310)	(6,406)	(4,315)	(1,436)
Share of profits of associates	7,019	3,959	–	–	5,006
Gain on remeasurement of interests upon acquisition	–	–	–	–	14,126
PROFIT BEFORE TAX	3,791	137,273	157,795	85,405	71,887
Income tax expense	(680)	(20,552)	(30,930)	(17,388)	(21,453)
PROFIT FOR THE YEAR	3,111	116,721	126,865	68,017	50,434
Attributable to:					
Owners of the parent	50,645	90,219	120,705	66,490	44,275
Non-controlling interests	(47,534)	26,502	6,160	1,527	6,159
	3,111	116,721	126,865	68,017	50,434

Five Year Financial Summary

	As at 31 December				
	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	3,030,522	2,433,267	2,002,701	1,588,363	1,537,490
Total liabilities	(1,702,979)	(1,218,339)	(808,235)	(524,536)	(526,863)
Net assets	1,327,543	1,214,928	1,194,466	1,063,827	1,010,627
Non-controlling interests	(14,864)	(107,168)	(84,656)	(76,295)	(83,385)
	1,312,679	1,107,760	1,109,810	987,532	927,242