AUSNUTRIA DAIRY CORPORATION LTD
澳優乳業股份有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

Annual Report 2014

澳优·海普诺凯
Ausnutria

Contents

Chairman's Statement

TO ALL SHAREHOLDERS:

I hereby present the annual report with the annual results of Ausnutria Dairy Corporation Ltd (the "**Company**") and its subsidiaries (the "**Group**") for the year ended 31 December 2014 (the "**Year 2014**").

First of all, on behalf of the board (the "**Board**") of directors (the "**Directors**") of the Company, I would like to take this opportunity to express our sincere appreciation to all the shareholders of the Company (the "**Shareholders**"), potential investors, business partners and other stakeholders for the patience and continuing support to the Company despite the suspension of trading in the shares of the Company (the "**Shares**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 29 March 2012 (the "**Suspension**"). Trading in the Shares was resumed during the Year 2014 on 4 August 2014 upon fulfilling all the resumption conditions imposed by the Stock Exchange (details of which are set out in the announcement of the Company dated 3 July 2012).

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

BUSINESS REVIEW

Despite the global dairy market's continued growth, particularly in the People's Republic of China (the "**PRC**"), 2014 was another challenging year for the Company. Nevertheless, the Company was able to accomplish a number of major steps that the Board believes will strengthen its foundation and bring about critical successes leading to long-term growth.

Industry Overview

In order to maintain the industry's healthy growth and improve quality and safety standards in paediatric milk formula, the PRC government launched a 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 that paediatric milk powder manufacturers establish comprehensive tracking systems from production to distribution in the PRC; and (iii) requiring that foreign enterprises obtain registration of their dairy products, now regulated by a more stringent set of new rules and regulations, before their products can be imported into the PRC.

In accordance with various announcements by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (the "**AQSIQ**")（國家質量監督檢驗檢疫總局）, in order to strengthen the inspection and quarantine of dairy products for import and export, unregistered foreign enterprises that produce dairy products were prohibited from importing their products into the PRC from 8 May 2014 onwards.

In May 2014, the PRC government announced the first batch of 115 imported brands that were granted approval to import paediatric milk formula into the PRC. They include all of the Group's brands: Allnutria, Augood, Hyproca 1897, Kabrita, Puredo, Mygood, Eurolate and Neolac.

Furthermore, on 6 May 2014, three of the Company's subsidiaries incorporated in the Netherlands that are wholly-owned by Ausnutria Hyproca B.V. ("**Ausnutria Hyproca**") – namely, (i) Lypack Leeuwarden B.V. ("**Lypack**"); (ii) Hyproca Dairy B.V.; and (iii) Lyempf Kampen B.V. – were listed in the first batch of registered overseas dairy products producers as approved for importing their products into the PRC. Ausnutria Hyproca and its subsidiaries are hereinafter collectively referred to as the Ausnutria Hyproca Group.

The New Policies triggered momentary market instability in the PRC's dairy industry last year as distributors adopted a more conservative stance in placing orders during this period pending further clarification and details on how the New Policies would be implemented. In addition, industry participants who failed to obtain import approval took to offering price reductions and rebates in order to clear their inventories.

The granting of the import approval of all the brands and the successful registrations of the overseas factories of the Group has further assured and recognised the good quality of the dairy products of the Group which the Company believes is one of the major factors leading to the long-term success of the Group.

Production

The Group currently has four production facilities: one in the PRC and three in the Netherlands. The production facility in the PRC is primarily engaged in the dry blending and packaging of imported paediatric milk formula for sale in the PRC. The production facilities in the Netherlands are primarily engaged in the production of milk powder and other dairy products, such as butter and cream, as well as the blending and packaging of milk powder (including paediatric milk formula) for sale to worldwide customers.

In accordance with the circular issued by the China Food and Drug Administration with respect to the Promulgation of the General Principles (the "**General Principles**") for the Examination of Production Approval for Paediatric Milk Formula Powder (the "**Circular**") promulgated by the PRC government on 16 December 2013, the paediatric milk powder enterprises in the PRC were required to complete the renewal review process for production licenses by 31 May 2014. An application submitted by a paediatric milk formula powder manufacturer for the renewal of its production license is now subject to the General Principles, which impose more stringent criteria for granting a production license.

On 14 March 2014, Ausnutria Dairy (China) Co., Ltd ("**Ausnutria China**"), a wholly-owned subsidiary of the Company, completed its renewal review process for production licensing. It obtained a renewed production license in accordance with the Circular and other relevant PRC laws and regulations. The license is valid for a three-year period, i.e. until 13 March 2017. Further details regarding the granted production license were set forth in the announcement of the Company dated 24 March 2014.

The renewed production license and the approval given to product importation into the PRC for the Group's three production facilities in the Netherlands confirm that all the Group's production facilities have satisfied all the New Policies' requirements.

Chairman's Statement

The Ausnutria Hyproca Group is located in the Netherlands, where there is an ample supply of quality cow and goat milk. Demand for dairy products by the Ausnutria Hyproca Group has been increasing in recent years. To cater to this increasing demand and the Group's long-term growth, the Company approved a capital expenditure plan (the "**CAPEX Plan**") in 2013 for upgrading two milk powder spray towers and purchasing new machinery to increase the Ausnutria Hyproca Group's blending and packaging capacity. The total investments for the CAPEX Plan amounted to approximately EUR19.7 million (equivalent to approximately RMB146.8 million), of which approximately EUR11.5 million (equivalent to approximately RMB85.7 million) and approximately EUR8.2 million (equivalent to approximately RMB61.1 million) were invested in 2013 and 2014, respectively.

The trial running and streamlining of the production facilities were substantially completed in the second half of 2014. As a result of the CAPEX Plan, the annualised milk powder and blending and packaging production capacity of the Ausnutria Hyproca Group (based on existing product mix) increased from approximately 15,000 tons and approximately 16,000 tons to approximately 30,000 tons and approximately 28,000 tons, respectively.

Despite the CAPEX Plan's leading to a temporary production interruption at Ausnutria Hyproca Group's two milk spray towers in 2013 and 2014, the plan's completion achieved two goals: increased the production capacity and improved the Group's dairy product quality standards. These achievements are critical success factors for the Group's long-term growth.

Sales

Ausnutria China

Ausnutria China is principally engaged in the production, marketing and distribution of imported paediatric cow milk formula in the PRC. Ausnutria China's products are produced by the Ausnutria Hyproca Group as well as other independent third-party suppliers from France, Denmark, Australia and New Zealand.

The Allnutria series continued to be the major product line of Ausnutria China, and it was launched since the establishment of Ausnutria China. In the past, the Allnutria series was mainly produced by the supplier in Australia (the "**Australia Supplier**"). During the Year 2014, the import of Allnutria series products were temporarily interrupted as the Australia Supplier was not included in the first batch of registered overseas dairy products producers as announced by AQSIQ in May 2014.

In 2014, Ausnutria China, with the cooperation of Beijing University, succeeded in developing the fourth generation of Allnutria series products (the "**New Allnutria**"). The New Allnutria, produced by the Ausnutria Hyproca Group, was launched in late 2014. During the transition period of introducing the New Allnutria, Ausnutria China had temporarily suspended the sale of the Allnutria series products in order to allow sufficient time for the market to digest all the old version Allnutria. In 2014, total sales of the Allnutria series products amounted to approximately RMB293.0 million, representing a decline of approximately 30.2% when compared with the year ended 31 December 2013 (the "**Year 2013**").

In order to enhance its competitiveness, Ausnutria China launched a number of new infant formula products in recent years under different brands managed by different business divisions, namely, the Puredo and the 1897 divisions. Different business divisions were set up to facilitate the marketing and distribution of different infant formula into different consumer sectors in order to address the PRC consumers' wide-ranging demands. In 2012, Ausnutria China launched the Puredo series products (managed by the Puredo division) with newly developed infant formula at a competitive price to penetrate third and fourth-tier cities in the PRC. In 2013, Ausnutria China launched the 1897 series (managed by the 1897 division) comprising the Hyproca 1897 and Lacfor branded products. All the 1897 series products are produced by the Group's factories in the Netherlands and contain newly-developed infant formula targeting high-end consumers looking for premium-quality products and superior after-sales services. The retail prices of the Hyproca 1897 branded products are currently the highest among all the Group's products sold in the PRC. For the Year 2014, total sales of the Puredo and 1897 series products amounted to approximately RMB101.4 million and approximately RMB130.3 million, representing an increase of approximately 18.7% and approximately 222.5%, respectively, when compared with the Year 2013.

In 2014, Ausnutria China worked with Southern Media Corporation to launch a "charity-sponsored" celebrity program called "Star Citizens"(明星公民) with TV star Ms. Li Xiaolu (李小璐) invited to serve as the charity ambassador. In addition, Ausnutria China joined hands with the Health Science Center of Beijing University to establish the 2014 celebrity charity scheme themed on "Protecting the first sip of milk, giving the best start possible in life (守護第一口奶 — 給生命更好的開始)". Ausnutria China helped publish a breastfeeding survey to draw public awareness to maternal and children's nutrition and health.

Ausnutria China also sponsored the first domestic maternal and children's entertainment show called "Super Mum College"(辣媽學院開課啦), which promoted the most advanced world-class information on maternal and children's issues and delivered it in a stimulating way. Furthermore, Ausnutria China actively took part in industrial exhibitions, including the launch of the latest and best fourth-generation Allnutria series products, all of which upheld world-class standards, at Shanghai Kids Expo. The products were well-received by the market, and these helped strengthen employees' and distributors' confidence in Ausnutria China as well as in its brand image.

Chairman's Statement

Ausnutria Hyproca Group

The Ausnutria Hyproca Group is principally engaged in the dairy industry through 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 world's major countries. The Ausnutria Hyproca Group sells the dairy products under its own brands, namely, Kabrita for goat infant formula, and Neolac for cow infant formula, as well as under private label and contract manufacturing arrangements. The private label and contract manufacturing arrangements serve customers in the Netherlands and other countries, such as the PRC, Taiwan, as well as other European and Middle Eastern countries. The Kabrita-branded businesses serve customers in the PRC, Russia and the Commonwealth of Independent States ("**CIS**") and Middle Eastern countries, whereas Neolac serves customer in the PRC. In August 2014, the Ausnutria Hyproca Group commenced the sale of Stage 3-Kabrita infant formula and goat milk-based yogurt in the United States.

(i) *Branded Business* – For the Year 2014, total sales of the Kabrita series products amounted to approximately RMB302.1 million, representing an increase of approximately 97.3% when compared with the Year 2013. The increase was mainly attributable to the increasing recognition of the good quality of goat milk formula which is reported in a number of researches and studies to have a high nutrition, digestion and the better development of immune system than cow milk formula and the effective marketing strategies deployed by the Group since the products was launched in 2011.

(ii) *Private Label and Contract Manufacturing Businesses* – For the Year 2014, the total sales of private label and contract manufacturing businesses amounted to approximately RMB515.6 million, representing an increase of approximately 16.6% when compared with the Year 2013. Such increase was mainly contributed by the increase in the production capacities of the Ausnutria Hyproca Group as a result of the CAPEX Plan and the Ausnutria Hyproca Group were able to meet the continuous increase in demand from its customers worldwide.

Research and Development

During the Year 2014, the Group continued to place strong emphasis on research and development (the "**R&D**") with respect to paediatric milk formula. As at the end of the reporting period, the Group has filed application for 36 patents for its research results. The New Allnutria launched by Ausnutria China during the Year 2014 has been awarded the second prize of Changsha City Science and Technology Progress Award（長沙市科技進步二等獎）. Further, the Technology Centre of Ausnutria China, which was established in 2003, was granted the Provincial-level Enterprise Technology Centre（省級企業技術中心）by Hunan Economic and Information Technology Commission（湖南省經濟和信息化委員會）in September 2014.

In March 2012, the Group entered into an agreement with the medical school of Beijing University to form a 10-year strategic cooperation for the joint R&D of paediatric milk formula in the PRC. During the Year 2014, the Group further cooperates with the medical school of Beijing University in the establishment of human breast milk bank. The purposes of establishing human breast milk bank are to (i) collect a representative population of human breast milk; (ii) establish a database of human breast milk ingredients and a platform for its biological samples; (iii) understand the ingredients of human breast milk (e.g. amino acids), the dynamic change and the relevant factors of types of minerals and vitamins and trace elements in human breast milk; (iv) evaluate the impact of human breast milk affects in different stages of the development of infants in order to formulate the guidelines for feeding infants in the PRC and revise the guidelines for the appropriate infant dietary nutrition intakes; and (v) research and develop infant formula food and functional foods more similar to the nutrition content of human breast milk.

The clinical trials of the Kabrita series products, principally conducted by research teams in Europe and the United States, are being carried out as planned to apply for approval by the U.S. Food and Drug Administration ("**FDA**") for the launch of stages 1 and 2 of the Kabrita series products in the United States.

The Group will continue to increase its investment in R&D to improve products and will periodically adjust its research and development focus in response to industry trends and market demands. This approach will help the Group maintain and strengthen its market position in the paediatric nutrition products industry.

Investment

The Company considers the ability to secure quality milk source is one of the fundamental success factors in the industry. During the Year 2014, Hyproce Goat Milk B.V. ("**HGM**"), a subsidiary within the Ausnutria Hyproca Group, and two parties independent of the Group (the "**Sanimel Sellers**"), entered into a share purchase agreement, pursuant to which HGM issued new shares to the Sanimel Sellers in exchange of 100% equity interest in Sanimel held by the Sanimel Sellers. Upon the completion of the Sanimel Acquisition, Sanimel became a wholly-owned subsidiary of HGM and the Ausnutria Hyproca Group's interest in HGM was diluted from 100% to 56%. Both Sanimel and HGM have long term contracts with farmers in the Netherlands for the supply of goat milk. In addition, the Ausnutria Hyproca Group also invested EUR3.55 million (equivalent to approximately RMB26.1 million) for the participation in 50% of the equity interest in Farmel Holding B.V. (the "**Farmel Investment**"), a company also incorporated in the Netherlands, during the Year 2014. The Farmel Holding B.V. and two of its wholly-owned subsidiaries (the "**Farmel Group**") which was founded in 2007 are principally engaged in collection and trading of cow and goat milk.

The primary objective of the Sanimel Acquisition and the Farmel Investment is to ensure a stable future supply of quality cow and goat milk for the production of dairy products by the Ausnutria Hyproca Group to its customers. The Group's share of the results of the Farmel Group for the Year 2014 amounted to approximately RMB4.0 million (Year 2013: Nil). The principal activity of both HGM and Sanimel is the holding of milk contracts and the operation of Sanimel was gradually merged into HGM upon completion of the Sanimel Acquisition. The operating profit of Sanimel for the Year 2014, which was derived from intercompany sales and merged into the book and records of HGM, is not significant to the Group. Upon the completion of the Sanimel Acquisition and the Farmel Investment, the Ausnutria Hyproca Group now has access to approximately 20% of the total goat milk supply in the Netherlands.

Corporate Governance and Others

During the Year 2014, the Company fulfilled all its resumption conditions imposed by the Stock Exchange, including but not limited to, showing there were no significant deficiencies in the Group's corporate governance. The Company also demonstrated that it had put in place adequate financial reporting procedures and internal control systems to meet the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") obligations. Trading in the Shares was resumed on 4 August 2014.

Chairman's Statement

On 11 November 2014, Center Laboratories, Inc. ("**Center Lab**") with its subsidiary (the "**Center Lab Group**") through the acquisition of 107.0 million and approximately 148.0 million issued Shares from two substantial Shareholders, acquired approximately 25.8% equity interest in the Company. On 12 December 2014, the Company appointed Mr. Lin Jung-chin ("**Mr. Lin**"), the chairman and executive director of Center Lab, as an executive Director.

Center Lab was founded in 1959 and is a limited liability company incorporated under the laws of Taiwan. Center Lab's shares have been listed on Taiwan's GreTai Securities Market since 2003. Center Lab is an industrial biotechnological company that specializes in manufacturing liquid oral drugs including capsule and tablet formulations for infants, children, the elderly and special-care patients.

Mr. Lin graduated with a bachelor's degree in pharmacy from Taipei Medical University in 1977 and was awarded an honorary doctorate in medicine by Taipei Medical University in 2010. He held several chief executive management positions in various pharmaceutical companies in Taiwan for more than 30 years. Mr. Lin is also the director of several companies listed on the GreTai Securities Market and in Taiwan's emerging stock market.

The Company believes that the Center Lab Group's investment and Mr. Lin's appointment as an executive Director who possesses extensive experience in managing companies will broaden the Shareholder base and further strengthen the Company's corporate governance.

OUTLOOK

During the PRC President Xi Jinping's visit to the Netherlands in March 2014, a joint statement was issued by the two countries to enhance their economic co-operation on a wider scale, including additional exports of Dutch dairy products to the PRC. The Group believes that the New Policies and its success in obtaining renewed production licenses for Ausnutria China, coupled with its gaining import licenses for the aforementioned subsidiaries, will create greater opportunities and increase the Group's competitiveness, thus facilitating the Group's future growth.

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

Continue upward integration

In 2011, the Group acquired a 51% equity interest in Ausnutria Hyproca, and Ausnutria Hyproca became a subsidiary of the Company thereafter. During the Year 2014 and up to the end of the reporting period, the Group advanced a total of EUR22.1 million (equivalent to approximately RMB164.8 million) to finance the CAPEX Plan and the working capital of the Ausnutria Hyproca Group. Details regarding the provision of financial assistance to the Ausnutria Hyproca Group were set out in the announcements of the Company dated 7 June 2013, 5 November 2013 and 23 September 2014.

In anticipation of increasing demand and a growing market for dairy industry products worldwide, the Company and Ausnutria Dairy (Dutch) Coöpertief U.A., a wholly-owned subsidiary of the Company, entered into a share purchase agreement on 12 January 2015 with Dutch Dairy Investments B.V. ("**DDI**") for the acquisition of the residual 49% equity interest in Ausnutria Hyproca (the "**Ausnutria Hyproca Acquisition**"). Upon completion, this acquisition will further consolidate the business currently conducted by the Ausnutria Hyproca Group into the Group. The consideration for the Ausnutria Hyproca Acquisition will be settled by the issuance of 200 million new Shares and by a cash consideration at HK$20,125,000.

As the Ausnutria Hyproca Acquisition constitutes a major transaction under the Listing Rules, it is subject to Shareholders' approval at an extraordinary general meeting of the Company. Details of the Ausnutria Hyproca Acquisition will be included in a circular to be despatched to the Shareholders in due course.

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

Increase production capacity in the Netherlands

As disclosed in the announcement of the Company dated 24 April 2013, the Ausnutria Hyproca Group planned to further expand its production capacity through the construction of new production facilities (the "**New Factory**") in response to an anticipated increase in demand for infant and toddler nutrition product worldwide. In 2014, the Ausnutria Hyproca Group acquired a parcel of land in Heerenveen, the Netherlands, with a total area measuring approximately 140,000 square meters (the "**Land**") for construction of the New Factory that the Board had approved for the Ausnutria Hyproca Group's investment plan (the "**Factory Investment Plan**").

Under the Factory Investment Plan, the total investment cost (including the Land and all the production facilities) is estimated to be approximately EUR83.0 million (equivalent to approximately RMB618.8 million), which will be financed by banking facilities granted to the Ausnutria Hyproca Group as well as to the Group's internal working capital. The New Factory, which has a maximum blending and packaging capacity of approximately 90,000 tons per annum, is expected to commence operation in 2016.

Focus on goat milk-based infant formula

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 the Kabrita series products in the PRC from the fourth quarter of 2011. In the same year and 2012, the Group entered into agreements with the medical school of Beijing University for conducting a series of clinical trials of the Kabrita 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 October 2013, the Group approved clinical trials to apply for approval by the FDA for the sale of the Kabrita series products in the United States.

The Group has also established subsidiaries with independent third parties for the sale of the Kabrita series products in Russia and CIS, the Middle East, the United States and Canada in 2012, 2013 and 2014, respectively. The Group will continue to launch the 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 Beijing University; (ii) clinical studies in Europe; and (iii) the in-house R&D team in the Netherlands and in North America during the course of applying for FDA approval.

Continue to invest in information technology

The Group has continued to place strong emphasize on the development of information technology systems (the "**IT Systems**") in order to cater for the changes in purchasing patterns of consumers and the development of e-commerce of the Group. During the year, the Group has launched a number of mobile applications and has cooperated with a number of leading e-commerce platform providers in the PRC like TMALL.COM, JD.COM, Yihaodian, Amazon.cn and Dangdang.com for the development of its e-commerce business.

Through the IT Systems, the Board believes that the Group will be able to (i) establish in the long run a closer relationship with its customers and distributors by means of implementing the membership program and reward system for the customers; (ii) better understand the consumer behavior by analyzing the data collected in the IT Systems to facilitate the implementation of marketing strategies; and (iii) exercise effective inventory controls over the order status and inventory level of its sales channels by analyzing the data through the real-time inventory tracking system to avoid channel conflicts and over stocking.

The Group will continue to enhance the IT Systems to cater for the fast growing but rapid changing e-commerce sector.

Proposed Transaction

Last but not the least, on 21 January 2015, the Company was informed by two substantial Shareholders (the "**Sellers**") that a non-binding letter of intent (the "**LOI**") was entered into between the Sellers and Center Lab whereby the Sellers intend to sell and Center Lab intends to purchase a number of Shares held by the Sellers representing 15% to 20% of the issued Shares (the "**Proposed Transaction**"). If the Proposed Transaction materialises, Center Lab is required to make a mandatory offer of all the Shares (other than those already owned or agreed to be acquired by the purchaser or parties acting in concert with it) in accordance with Rule 26.1 of the Hong Kong Code on Takeovers and Mergers. Further announcement(s) will be made to inform the Shareholders when the formal agreement is entered.

Details regarding the LOI was set out in the announcement of the Company dated 21 January 2015.

APPRECIATION

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

Yan Weibin
Chairman

Changsha City, PRC
30 March 2015

Management Discussion and Analysis

FINANCIAL REVIEW

Overall performance

	2014 RMB'M	2013 RMB'M
REVENUE:		
– Ausnutria China	575.5	586.6
– Ausnutria Hyproca Group	1,491.8	1,148.4
	2,067.3	1,735.0
Less: Intersegment sales	(101.3)	(47.2)
– The Group	1,966.0	1,687.8

Revenue – Overall

For the Year 2014, the Group recorded revenue of approximately RMB1,966.0 million, representing an increase of approximately RMB278.2 million, or approximately 16.5%, from approximately RMB1,687.8 million for the Year 2013.

Revenue – Ausnutria China

Ausnutria China is principally engaged in the production, marketing and distribution of imported paediatric cow milk formula 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:

	Notes	2014 RMB'M	2013 RMB'M	Change %
Allnutria division	(i)	293.0	419.8	–30.2%
Puredo division*	(ii)	101.4	85.4	18.7%
1897 division#	(iii)	130.3	40.4	222.5%
Others		50.8	41.0	23.9%
Total		575.5	586.6	–1.9%

* Established in June 2012

\# Established in April 2013

Notes:

(i) Allnutria division – mainly responsible for the sale and marketing of Ausnutria China's Allnutria, organic Allnutria and Augood branded cow milk infant formula in the PRC.

In 2014, the PRC government launched the New Policies to improve the national standard for the safety of dairy products, including but not limited to, that overseas infant formula producers are now required to be certified and registered by the Certification and Accreditation Administration of the PRC before the goods can be imported into the PRC. The New Policies have resulted in a short term pressure in the industry and distributors in the PRC were more conservative in placing their orders during the early implementation stage of the New Policies.

In the past, the Allnutria series was mainly produced by the Australia Supplier. During the Year 2014, the import of Allnutria series products was temporarily interrupted as the Australia Supplier was not included in the first batch of registered overseas dairy products producers as announced by AQSIQ in May 2014.

In 2014, Ausnutria China, with the cooperation of Beijing University, succeeded in developing the New Allnutria series products. The New Allnutira was launched in late 2014. During the transition period of introducing the New Allnutria, Ausnutria China had temporary suspended the sale of the Allnutria series products in order to allow sufficient time for the market to digest all the old version Allnutria.

As a result of the above adverse impact, sales of the Allnutria division decreased by approximately 30.2% to approximately RMB293.0 million for the Year 2014.

(ii) Puredo division – mainly responsible for the sale and marketing of Ausnutria China's Puredo and A Series branded cow milk infant formula in the PRC. In the past, Ausnutria China mainly focused on the sale and marketing of premium infant formula. In order to cater for the needs of the consumers who are looking for import infant formula with a more affordable price, Ausnutria China launched the Puredo series products under newly developed infant formula with a competitive cost in 2012. The markets of the Puredo series products are mainly to the third and fourth-tier cities in the PRC.

(iii) The 1897 division – mainly responsible for the sale and marketing of Ausnutria China's Hyproca 1897 and Lacfor branded cow milk infant formula in the PRC. The Hyproca 1897 and Lacfor series products were launched in the PRC in April 2013 and August 2013, respectively. All the products of the 1897 division are produced by the Group's own factories in the Netherlands under newly developed infant formula. The purpose to launch the Hyproca 1897 series is to meet the needs of the high-end consumers who are willing to pay a premium for best quality and superior after sales services of infant formula. The retail prices of the Hyproca 1897 branded products are currently the highest among all of the products of the Group that are selling in the PRC.

With the more innovative and end consumers focused marketing strategies formulated by the newly established sales divisions, sales of the Puredo division and the 1897 division increased by 18.7% and 222.5% respectively for the Year 2014. The increase was adversely affected by the decrease in sales of the Allnutria division for the factors mentioned above. Sales of Ausnutria China decreased by approximately 1.9% to approximately RMB575.5 million for the Year 2014 when compared with the Year 2013.

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. All the three factories of the Ausnutria Hyproca Group were among those listed in the first batch of registered overseas dairy producers that were granted the registration for importing the products into the PRC.

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

	Notes	2014 RMB'M	2013 RMB'M	Change %
Manufacturing for:				
Private labels	(i)	486.5	347.3	40.1%
Own brands	(ii)	325.8	165.5	96.9%
Sales to Ausnutria China	(iii)	101.3	47.2	114.6%
Milk powder	(iv)	228.5	189.7	20.5%
Contract Manufacturing	(v)	29.1	94.9	–69.3%
Butter	(vi)	123.0	129.1	–4.7%
		1,294.2	973.7	32.9%
Manufacturing and trading for:				
Condensed milk, cream and other dairy products	(vii)	197.6	174.7	13.1%
Total		1,491.8	1,148.4	29.9%

Notes:

(i) Represented the sale of cow 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.

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

(iii) Represented the sale of the cow infant formula to Ausnutria China under brand names (such as the New 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 condensed milk and the trading of fresh milk, etc.

In late 2013, the Ausnutria Hyproca Group commenced the upgrading of one of the two milk powder production towers. In early 2014, the upgrading of the other milk powder production tower commenced shortly after the completion of the first tower and the upgrading of the second tower has been substantially completed in June 2014. The upgrading of the two production towers have caused a temporary interruption in the production of the Ausnutria Hyproca Group as the two towers have been temporary suspended for production for a few months in the first half of Year 2014.

Despite there was a temporary impact on the production caused by the upgrading plan, revenue of the Ausnutria Hyproca Group increased by approximately 29.9% to approximately RMB1,491.8 million for the Year 2014. The increase in the revenue of the Ausnutria Hyproca Group for the Year 2014 was primarily attributed to (i) the continuous increase in the revenue of Kabrita in the PRC from approximately RMB137.7 million for the Year 2013 to approximately RMB259.4 million for the Year 2014; (ii) the increase in production volume due to the increase in production capacity after the upgrading plan was substantially completed in the first half of the Year 2014; and (iii) the continuous increase in the demand for paediatric nutrition products from the customers in the Netherlands and other overseas countries due to the increasing recognition of the good quality of milk supply in the Netherlands and the reputation of good quality products delivered by the Ausnutria Hyproca Group that was built up since the establishment in 1897.

The Ausnutria Hyproca Group also provides blending and packaging services for other industry participants on a subcontracting basis. As a result of the impact on the CAPEX Plan and the increase in orders of the Group's own brands and the private label businesses, the Ausnutria Hyproca Group decreased the subcontracting activities during the year. The revenue of the contract manufacturing sector (mainly comprised subcontracting fees) decreased by approximately 69.3% for the Year 2014.

Gross profit and gross margin

	Gross profit		Gross margin	
	2014	2013	**2014**	2013
	RMB'M	RMB'M	**%**	%
Ausnutria China	**296.8**	309.9	**51.6**	52.8
Ausnutria Hyproca Group	**270.4**	161.9	**19.4**	14.7
The Group	**567.2**	471.8	**28.9**	28.0

The Group's gross profit for the Year 2014 was approximately RMB567.2 million, representing an increase of approximately RMB95.4 million, or approximately 20.2%, when compared with the Year 2013.

The slight decrease in the gross profit margin of Ausnutria China for the Year 2014 was mainly due to the increase in rebate granted to distributors/consumers in order for the markets to digest all the old version Allnutria inventories prior to the launch of the New Allnutria in late 2014. Besides, a provision for inventories (mainly attributable to the old version Allnutria) of approximately RMB8.5 million, representing approximately 1.5% of the gross profit margin, that was made during the Year 2014 also attributed for the decrease in the gross profit margin.

The increase in the gross profit margin of the Ausnutria Hyproca Group for the Year 2014 was mainly attributable to the proportionate increase in sales contributed by the own branded business (mainly Kabrita) from approximately 14.4% of the total revenue in the Year 2013 to approximately 21.8% in the Year 2014 with comparatively much higher gross profit margin than the private label and other businesses. The increase in the gross profit margin contributed by the own branded businesses was partly offset by the adverse impact caused by temporary suspension of the production as a result of the CAPEX Plan.

Other income and gains

An analysis of other income and gains is as follows:

	Notes	2014 RMB'M	2013 RMB'M
Interest income on bank deposits	(i)	**22.8**	21.4
Interest income on held-to-maturity investments		**–**	2.6
Insurance claim for business interruption	(ii)	**2.6**	–
Government grants		**0.9**	1.4
Others		**3.0**	0.5
		29.3	25.9

(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 represented compensation from insurance company for machineries malfunctioning in one of the production facilities of the Ausnutria Hyproca Group.

Selling and distribution expenses

An analysis of selling and distribution expenses is as follows:

	2014 RMB'M	2013 RMB'M
Ausnutria China	173.6	130.9
Ausnutria Hyproca Group	162.4	96.9
	336.0	227.8

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 17.1% and 13.5% of revenue for the Year 2014 and the Year 2013, respectively.

The selling and distribution expenses of Ausnutria China represented approximately 30.2% (Year 2013: 22.3%) of Ausnutria China's revenue for the Year 2014. The increase in selling and distribution expenses of Ausnutria China was mainly due to the increase in salaries and marketing costs as a result of the setting up of the two new sales divisions, namely the Puredo division and the 1897 division, for the launch of a number of new series of cow milk infant formula to target the different sectors of the consumers in the PRC. Besides, Ausnutria China incurred additional marketing and promotion costs such as the sponsoring of various TV programs in the PRC, including the "Star Citizens"(明星公民) and "Super Mum College"(辣媽學院開課啦), for brand building to cope with the intense market competition during the year.

The selling and distribution expenses of the Ausnutria Hyproca Group represented approximately 10.9% (Year 2013: 8.4%) of the Ausnutria Hyproca Group's revenue (before elimination of intersegment sales) for the Year 2014. Included in the selling and distribution expenses of the Ausnutria Hyproca Group, approximately RMB86.3 million (Year 2013: RMB53.9 million) representing approximately 53.1% (Year 2013: 55.6%) related to the sales and marketing of Kabrita in the PRC. 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 infant milk formula in the PRC, 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 production interruption caused by the CAPEX Plan, the Ausnutria Hyproca Group incurred additional air freight charges for the delivery of its products in order to meet the schedule of its customers. Selling and distribution costs of the Ausnutria Hyproca Group increased during the year.

Administrative expenses

An analysis of the administrative expenses is as follows:

	2014 RMB'M	2013 RMB'M
Ausnutria China	54.2	45.1
Ausnutria Hyproca Group	51.1	39.6
	105.3	84.7

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

The increase in the administrative expenses was primarily attributed to the 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, to cope with the business expansion (including the construction of the New Factory); the increase in the research and development costs for the newly launched products such as the New Allnutria; bank charges for the new financing obtained by the Group; and the professional fees for the business development and tax advisory services to the Group.

Other expenses

Other expenses mainly comprised legal and professional fees incurred as a result of the issues in relation to the Suspension (the "**Unresolved Issues**") of approximately RMB9.4 million (Year 2013: RMB11.2 million); write-off of trade receivables attributed to a number of distributors who have ceased trading with Ausnutria China of approximately RMB0.4 million (Year 2013: RMB2.8 million); and loss on impairment of plant and equipment of approximately RMB0.3 million (Year 2013: RMB1.9 million).

Finance costs

The finance costs of the Group for the Year 2014 amounted to approximately RMB10.3 million (Year 2013: RMB6.4 million), representing the interest on bank loans and other borrowings raised principally for the financing of the working capital and the production expansion plan of the Ausnutria Hyproca Group and the distribution of 2013 final dividend of the Company.

The increase in finance costs was mainly attributable to the drawdown of additional bank loans for the financing the working capital and the CAPEX Plan and the distribution of the 2013 final dividends. In view that most of the funding of the Group is denominated in RMB and placed in the PRC, the Group has pledged its RMB deposits in the PRC to obtain the bank facilities for the financing of the Ausnutria Hyproca Group and the 2013 dividend payment.

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 ended 31 December 2014. 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 were mainly derived from operations in the PRC and the Netherlands. 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 tax rate of 15% for the years ending 31 December 2015. All other subsidiaries established in the PRC are subject to the standard CIT rate of 25%. The standard CIT rate in the Netherlands was applied at 20% for the first 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	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Profit/(loss) before tax (RMB'M)	**140.8**	171.2	**30.2**	7.4	**(33.7)**	(20.8)	**137.3**	157.8
Income tax expense/(credit) (RMB'M)	**24.9**	30.2	**(0.4)**	0.7	**(3.9)**	–	**20.6**	30.9
Effective income tax rate (%)	**17.7**	17.6	**(1.5)**	10.1	**11.6**	–	**15.0**	19.6

The effective income tax rate for profit generated from Mainland China for the Year 2014 at 17.7% remained fairly stable when compared with the Year 2013. The effective income tax rate was slightly above the preferential CIT tax rate of 15% as part of the profit was contributed by the other operating subsidiary established in the PRC for the sale of Kabrita products which are subject to the standard CIT rate of 25%.

The effective income tax rate for profit generated from the Netherlands for the Year 2014 was negative 1.5%, representing a decrease of 11.6% when compared with the Year 2013. During the Year 2014, Ausnutria Hyproca Group has undergone significant CAPEX Plan including the upgrade of milk powder production towers and setting up the New Factory. Part of the expenditures qualified as being designated investments which is eligible for CIT deduction under the Netherlands tax law. The effective tax rate in the Netherlands decreased accordingly.

The Group's effective tax rate for the Year 2014 decreased by approximately 4.6% to 15.0% when compared with the Year 2013.

Profit attributable to equity holders of the Company

	2014 RMB'M	2013 RMB'M
Profit for the year:		
The Group (other than the Ausnutria Hyproca Group)	69.8	115.5
Ausnutria Hyproca Group	46.9	11.4
	116.7	126.9
Less: non-controlling interests	(26.5)	(6.2)
Profit attributable to equity owners of the Company	90.2	120.7

The Group's profit attributable to equity holders of the Company for the Year 2014 amounted to approximately RMB90.2 million, representing a decrease of approximately 25.3% when compared with the Year 2013. The decrease in net profit was mainly attributed by the decrease in the operating performance of the Allnutria division. The decrease was partly compensated by (i) the gradually improving financial performance of the Ausnutria Hyproca Group as a result of the completion of the CAPEX Plan; and (ii) the continuous growth in sale of Kabrita, the Puredo and the 1897 divisions.

Analysis on Consolidated Statement of Financial Position

Non-current assets

As at 31 December 2014, the total non-current assets of the Group amounted to approximately RMB683.0 million (31 December 2013: approximately RMB511.9 million), mainly comprised property, plant and equipment of approximately RMB483.2 million (31 December 2013: approximately RMB361.0 million), goodwill arising from the acquisition of Ausnutria Hyproca of approximately RMB75.7 million (31 December 2013: approximately RMB85.5 million), other intangible assets of approximately RMB44.5 million (31 December 2013: approximately RMB33.5 million), interests in the Farmel Group of approximately RMB30.1 million (31 December 2013: Nil) and deferred tax assets of approximately RMB47.5 million (31 December 2013: approximately RMB29.8 million).

The increase in the non-current assets of the Group as at 31 December 2014 was principally due to the increase in property, plant and equipment of the Ausnutria Hyproca Group as a result of (i) the CAPEX Plan for the increase in the production capacity of two milk powder production towers and the blending and packaging facilities in order to cope with the increasing demand of its products from the worldwide customers; and (ii) the purchase of a plot of land in Heerenveen, the Netherlands, with a total area of approximately 140,000 square meters and part of the building construction cost of approximately EUR5.2 million (equivalent to approximately RMB38.8 million) (31 December 2013: Nil) and approximately EUR6.9 million (equivalent to approximately RMB51.4 million) (31 December 2013: Nil), respectively, for the construction of the New Factory.

As at 31 December 2014, the CAPEX Plan was completed and the amount invested during the Year 2014 for the two milk production towers and the blending and packaging facilities amounted to approximately RMB55.9 million (2013: approximately RMB67.1 million) and approximately RMB5.2 million (2013: approximately RMB18.6 million), respectively, and the amount invested in the New Factory during the Year 2014 amounted to approximately RMB124.0 million (2013: Nil).

The increase in deferred tax assets resulting from deferred income recognised for accounting purpose that were attributable to the bonus points earned by distributors and customers and rebates to distributors also contributed for the increase in the total non-current assets. Other non-current assets position of the Group as at 31 December 2014 remained fairly stable when compared with that as at 31 December 2013.

Current assets

As at 31 December 2014, the total current assets of the Group amounted to approximately RMB1,750.2 million (31 December 2013: approximately RMB1,490.8 million), mainly comprised inventories of approximately RMB515.6 million (31 December 2013: approximately RMB315.7 million), trade and bills receivables of approximately RMB163.6 million (31 December 2013: approximately RMB175.6 million), pledged time deposits of approximately RMB216.9 million (31 December 2013: RMB213.0 million), time deposits with banks in the PRC of approximately RMB465.1 million (31 December 2013: approximately RMB496.3 million) and cash and cash equivalents of approximately RMB278.3 million (31 December 2013: approximately RMB161.2 million).

Inventories

An analysis of the inventories is as follows:

	2014 RMB'M	2013 RMB'M
Ausnutria China	120.7	90.4
Ausnutria Hyproca Group	394.9	225.3
	515.6	315.7

The inventory turnover days of Ausnutria China and the Ausnutria Hyproca Group as at 31 December 2014 was approximately 138 days (31 December 2013: approximately 93 days) and approximately 101 days (31 December 2013: approximately 71 days), respectively.

The increase in inventories and the inventory turnover days of Ausnutria China was primarily attributed to (i) the increase in brands and product series that were launched in recent years; and (ii) the slower than expected sales of the Allnutria division for the Year 2014.

The increase in inventories and the inventory turnover days of the Ausnutria Hyproca Group was primarily attributed to (i) the increase in the scale of productions as a result of the CAPEX Plan; (ii) the change in the sales composition by focusing more on the development of own branding business which requires the Ausnutria Hyproca Group to maintain a certain level of inventory to meet the growing demand of its customers; and (iii) the impact of the New Policies, which requires the products to go through a more detailed and longer quality testing procedures before importing into the PRC.

Trade and bills receivables

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

	2014	2013
	RMB'M	RMB'M
Trade receivables:		
– Ausnutria China	**24.6**	28.0
– Ausnutria Hyproca Group	**99.6**	112.5
	124.2	140.5
Bills receivable	**39.4**	35.1
	163.6	175.6

In order to mitigate the impact of the New Policies on the cash flows which increased the production lead time before the goods can be despatched to customers, the Ausnutria Hyproca Group tightened the credit terms granted to customers by gradually requesting prepayments from the private label customers in the PRC. The trade receivable turnover days of the Ausnutria Hyproca Group decreased by 5 days to 28 days as at 31 December 2014.

The trade receivable turnover days of Ausnutria China as at 31 December 2014 was approximately 17 days (31 December 2013: approximately 20 days) which remained fairly stable.

Pledged deposits

As set out in the announcements of the Company dated 7 June 2013, 5 November 2013 and 23 September 2014, the Company has approved the granting of three shareholders' loans of EUR7.0 million (equivalent to approximately RMB52.2 million), EUR10.0 million (equivalent to approximately RMB74.6 million) and EUR5.1 million (equivalent to approximately RMB38.0 million) for the financing of the working capital and the production expansion plans of the Ausnutria Hyproca Group. In view that most of the funding of the Group is denominated in RMB and placed in the PRC, the Group pledged its RMB deposits in the PRC of a total of RMB216.9 million (31 December 2013: RMB213.0 million) to obtain the bank facilities in Europe and Hong Kong for the financing of the shareholders' loans.

Time deposits and cash and cash equivalents

As at 31 December 2014, the Group's cash and bank balances and time deposits amounted to a total of approximately RMB743.4 million, representing an increase of approximately RMB85.9 million, or approximately 13.1%, from RMB657.5 million as at 31 December 2013.

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

Current liabilities

As at 31 December 2014, the total current liabilities of the Group amounted to approximately RMB1,121.7 million (31 December 2013: approximately RMB722.7 million), mainly comprised trade payables of approximately RMB184.2 million (31 December 2013: approximately RMB168.0 million), other payables and accruals of approximately RMB373.5 million (31 December 2013: approximately RMB256.6 million), interest-bearing bank loans and other borrowings of approximately RMB517.2 million (31 December 2013: approximately RMB260.0 million) and CIT payables of approximately RMB46.4 million (31 December 2013: approximately RMB37.5 million).

Trade payables

An analysis of the trade payables is as follows:

	2014 RMB'M	2013 RMB'M
Ausnutria China	10.6	16.0
Ausnutria Hyproca Group	173.6	152.0
	184.2	168.0

The trade payable turnover days of Ausnutria China and the Ausnutria Hyproca Group as at 31 December 2014 was approximately 17 days (31 December 2013: approximately 16 days) and approximately 53 days (31 December 2013: approximately 47 days), respectively, which remained fairly stable and were in line with the credit periods granted by the suppliers.

Other payables and accruals

Other payables and accruals mainly represented advances and deposits from customers of a total of approximately RMB95.3 million (31 December 2013: approximately RMB60.5 million), deferred income of approximately RMB99.5 million (31 December 2013: approximately RMB70.1 million), accrued salaries and welfare of approximately RMB35.7 million (31 December 2013: approximately RMB25.3 million), other tax payables of approximately RMB18.4 million (31 December 2013: approximately RMB14.7 million) and accrued marketing and promotion expenses, travelling costs and professional fees.

The increase in other payables and accruals was mainly attributable to the increase in advances and deposits from customers by approximately RMB34.8 million as a result of the change in credit terms granted to the private label customers of the Ausnutria Hyproca Group to mitigate the impact on the New Policies which caused a longer production lead time; the increase in deferred income by approximately RMB29.4 million and the general increase in the accrued expenses for the salaries and travelling costs for salesmen and the marketing and promotion expenses as a result of the establishment of a number of business units for the implementation of the multi-branding strategies of the Group.

Interest-bearing bank loans and other borrowings

The interest-bearing bank loans and other borrowings as at 31 December 2014 were primarily used for the financing of the working capital and the CAPEX Plan and distribution of the 2013 final dividends.

Non-current liabilities

As at 31 December 2014, the total non-current liabilities of the Group amounted to approximately RMB96.6 million (31 December 2013: approximately RMB85.5 million), comprised interest-bearing bank loans and other borrowings of approximately RMB51.9 million (31 December 2013: approximately RMB36.9 million), accruals for defined benefit plan of approximately RMB15.7 million (31 December 2013: approximately RMB18.5 million) and deferred tax liabilities of approximately RMB29.1 million (31 December 2013: approximately RMB30.2 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 RMB15.7 million (31 December 2013: approximately RMB18.5 million) were determined based on the actuarial valuations as at 31 December 2014 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 2014 and the fair value adjustment arising from the acquisition of Ausnutria Hyproca of a total of approximately RMB16.8 million (31 December 2013: approximately RMB18.5 million); and (ii) the withholding tax amounting to approximately RMB12.2 million (31 December 2013: approximately RMB11.7 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 2014 and 2013, the balance mainly represented the 49% equity interests in Ausnutria Hyproca owned by DDI.

Analysis on Consolidated Statement of Cash Flows

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

	2014	2013
	RMB'M	*RMB'M*
Net cash flows from operating activities	**85.9**	82.6
Net cash flows used in investing activities	**(212.5)**	(361.9)
Net cash flows from financing activities	**228.8**	159.5
Net increase/(decrease) in cash and cash equivalents	**102.2**	(119.8)

Net cash flows from operating activities

The profit before tax of the Group for the Year 2014 was approximately RMB137.3 million (Year 2013: approximately RMB157.8 million) while net cash flows from operating activities of the Group for the Year 2014 amounted to approximately RMB85.9 million (Year 2013: approximately RMB82.6 million).

The difference was mainly the net effect of the increase in inventories of RMB243.8 million (Year 2013: RMB122.7 million) and the increase of other payables and accruals of RMB123.5 million (Year 2013: RMB26.6 million) mainly due to the increase in advance from customers and deferred income.

Net cash flows used in investing activities

The net cash flows used in investing activities of the Group for the Year 2014 of approximately RMB212.5 million (Year 2013: approximately RMB361.9 million) mainly represented (i) the purchase of property, plant and equipment of approximately RMB206.5 million (Year 2013: approximately RMB126.7 million), mainly for the expansion of the production capacity of the Ausnutria Hyproca Group and the construction of the New Factory; and (ii) the investments in associates of approximately RMB26.1 million (Year 2013: Nil). Last year's cash flows used in investing activities also included an increase in pledged time deposits of RMB213.0 million.

Net cash flows from financing activities

The net cash flows from financing activities of the Group for the Year 2014 of approximately RMB228.8 million (Year 2013: approximately RMB159.5 million) was primarily due to the draw down of the additional bank loans and other borrowings of a total of approximately RMB312.6 million (Year 2013: approximately RMB163.6 million) for the financing of the investing activities mentioned above and payment of the 2013 final dividends of approximately RMB77.6 million (Year 2013: Nil) during the Year 2014.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

Save for the Sanimel Acquisition and the Farmel Investment as detailed above in this report, there were no material investments and acquisitions and disposals of subsidiaries and associated companies during the Year 2014.

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	
	2014	2013
	RMB'M	RMB'M
Cash and cash equivalents	**278.3**	161.2
Time deposits	**465.1**	496.3
Total bank loans and other borrowings	**569.1**	296.8
Total assets	**2,433.3**	2,002.7
Gearing ratio (1)	**23.4%**	14.8%

Note:

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

As at 31 December 2014, 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 EUR98.8 million, equivalent to approximately RMB736.8 million (31 December 2013: approximately EUR68.0 million, equivalent to approximately RMB572.2 million) and the time deposits that were attributable to Ausnutria China of RMB216.9 million (31 December 2013: RMB213.0 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 2014, 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 2014, the Group, as lessee, had total future minimum lease payments under non-cancellable operating leases amounting to approximately RMB8.0 million (31 December 2013: approximately RMB6.6 million).

As at 31 December 2014, 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 RMB40.0 million (31 December 2013: approximately RMB23.3 million).

CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any significant contingent liabilities (31 December 2013: 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 (the "**IPO**") of approximately HK$823.1 million (after deducting underwriting commissions and related expenses) (the "**Net IPO Proceeds**").

The use of the Net IPO Proceeds from the IPO up to 31 December 2014 was as follows:

	As stated in the Prospectus* HK$'000	Utilised HK$'000	Balance as at 31 December 2014 HK$'000
Invest in upstream operations	246,930	(246,930)	–
Expand the Group's distribution network and brand building	246,930	(246,930)	–
Enhance the Group's research and development efforts	82,310	(64,215)	18,095
Introduce new series of organic paediatric nutrition products	82,310	(64,856)	17,454
Establish new production lines and warehouse	82,310	(82,310)	–
General working capital	82,310	(82,310)	–
	823,100	(787,551)	35,549

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

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

HUMAN RESOURCES

Number of full-time employees	Mainland China	Hong Kong	The Netherlands	Others	Total
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
31 December 2013					
The Group (other than the Ausnutria Hyproca Group)	607	4	–	–	611
Ausnutria Hyproca Group	267	–	249	26	542
	874	4	249	26	1,153

For the Year 2014, total employee costs, including directors' emoluments, amounted to approximately RMB233.3 million (Year 2013: approximately RMB189.8 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale.

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

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Yan Weibin *(Chairman)*
Mr. Lin Jung-chin (appointed on 12/12/2014)
Mr. Bartle van der Meer *(Chief Executive Officer)*
Ms. Ng Siu Hung

Independent Non-executive Directors

Mr. Qiu Weifa
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)
Mr. Qiu Weifa
Mr. Jason Wan

REMUNERATION COMMITTEE

Mr. Lau Chun Fai Douglas (appointed as Chairman on 2/1/2015)
Mr. Yan Weibin
Mr. Qiu Weifa
Mr. Jason Wan

NOMINATION COMMITTEE

Mr. Yan Weibin *(Chairman)*
Mr. Qiu Weifa
Mr. Jason Wan
Mr. Lau Chun Fai Douglas (appointed on 2/1/2015)

AUDITORS

Ernst & Young
Certified Public Accountants

LEGAL ADVISER (As to Hong Kong law)

King & Wood Mallesons (up to 30/9/2014)
Kwok Yih & Chan (from 1/10/2014)

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

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

In the Netherlands

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

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

STOCK CODE

1717

COMPANY'S WEBSITE

www.ausnutria.com.hk

Directors' and Senior Management's Biographies

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

DIRECTORS

Executive Directors

Mr. Yan Weibin ("**Mr. Yan**"), aged 49, was appointed as the executive Director on 8 June 2009 and was elected Chairman of the Board on 7 June 2013. Mr. Yan is a shareholder and director of Brave Leader Limited ("**Brave Leader**") and Ausnutria Holding Co Ltd ("**Ausnutria BVI**"), the substantial Shareholders, and also a director of a number of the Company's subsidiaries, including Ausnutria China and Ausnutria Hyproca. He joined the Group since the establishment of Ausnutria China in September 2003. Mr. Yan is responsible for leading the Board and making sure it works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. Mr. Yan is also primarily responsible for the overall corporate strategy, planning and business development of the Group. Mr. Yan graduated from Hunan University with a degree in bachelor of engineering and MBA. Mr. Yan has been a director of Yuan Longping High-tech Agriculture Co., Ltd*（袁隆平農業高科技股份有限公司）("**Longping High-tech**"), a company whose shares are listed on the Shenzhen Stock Exchange, from 2004. He was Longping High-tech's chief officer from 2004 to April 2010, the vice chairman and the chief financial officer from April 2010 to December 2011, the chief executive officer and chief financial officer from December 2011 to June 2012 and has become the vice chairman since June 2012. Mr. Yan resigned as the chief executive officer and the chief financial officer (remains as the vice chairman) of Longping High-tech in June 2012.

Mr. Lin Jung-chin ("**Mr. Lin**"), aged 60, 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**"), 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 with a bachelor degree in pharmacy from Taipei Medical University and was rewarded an honorary doctor in medical by Taipei Medical University in 2010. Mr. Lin also serves the chairmanship of several companies listed on the Emerging Stock Market in Taiwan, namely Center Lab, Medeon Biodesign, Inc., Mycenax Biotech Inc. and TPG Biologics, Inc. He also holds the directorship or as a member of the senior management of over ten companies. Mr. Lin has extensive experience in directing the reorganisation and restructuring of enterprises. He is actively engaged in the investment planning and integration of the biotechnology industry.

Directors' and Senior Management's Biographies

Mr. Bartle van der Meer ("**Mr. van der Meer**"), aged 69, was appointed as the executive Director and Chief Executive Officer on 7 June 2013. Mr. van der Meer is one of the founders of Ausnutria Hyproca. He indirectly held 49% equity interests in Ausnutria Hyproca through the shareholding in DDI and has been involved in the strategic management since the establishment of Ausnutria Hyproca in 1994. He has also been a member of the board of directors and chief executive officer of Ausnutria Hyproca since 2012. Mr. van der Meer is primarily responsible for managing and executing the Group's overall business directions and corporate operation decisions. He graduated with a business administration degree in the Netherlands with a major in banking in 1966. He worked for Rabobank, a multinational banking and financial services group in the Netherlands for more than 25 years. He is serving as the executive director of PMH Investments B.V., a private equity which owned 46.55% equity interests in DDI, and Vegelin Group B.V. since 1994. Mr. van der Meer has been the chairman of supervisory board of sc Heerenveen NV (a soccer club which plays in the premier division in the Netherlands) since 1998 to 2012, and a member of Foundation Accell Group (a company listed on Euronext Amsterdam (formerly known as Amsterdam Stock Exchange) since 1998.

Ms. Ng Siu Hung ("**Ms. Ng**"), aged 46, was appointed as the executive Director on 19 September 2009. Ms. Ng is primarily responsible for the Group's investor relations. She studied applied english language at Changsha University and graduated at The University of Westminster, the United Kingdom with a master of arts degree in human resource management. She was the representative of a computer network company and then, a manager of a trading company for about 2 years. Ms. Ng has been a director of Hunan Yukai Real Estate Development Co., Ltd*（湖南宇凱房地產有限公司）since 2004. She is the officer of Public Relations of Hunan XinDaXin Co., Ltd*（湖南新大新股份有限公司）.

Non-executive Director

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

Independent Non-executive Directors

Mr. Qiu Weifa ("**Mr. Qiu**"), aged 70, was appointed as the independent non-executive Director ("**INED**") on 19 September 2009. Mr. Qiu graduated from the Central University of Finance and Economics*（中央財政金融學院）and has senior economist qualifications*（高級經濟師）. Mr. Qiu was the vice general manager of the Bank of China (Singapore branch), the alternate general manager of the Bank of Guangdong province (Singapore branch) and the head of branch（行長）of the Bank of China (Hunan province branch). He has over 33 years of experience in the banking sector, holding management positions at various banking institutions.

Mr. Jason Wan ("**Mr. Wan**"), aged 51, was appointed as the INED on 19 September 2009. Mr. Wan completed a PhD at Deakin University, Australia in 1992. Prior to that, he graduated with a bachelor of science at Hunan Agricultural University in 1983 and a master of science in dairy science and processing at Northeast Agricultural University in 1986. Mr. Wan was a lecturer in the department of food science and technology at the Northeast Agricultural University from 1986 to 1988, and a visiting scientist at the Food Research Institute at the Department of Agriculture in Victoria, Australia in 1989. Mr. Wan was a post-doctoral researcher in the department of biochemistry at the University of Melbourne from 1992 to 1995, a senior research scientist at CSIRO Food Science Australia from 1995 to 2009 and a research professor in food microbiology and biotechnology at the Illinois Institute of Technology, USA since 2009. Mr. Wan has extensive knowledge and expertise in the areas of processing technologies for food safety, dairy processing and the functionality of various ingredients of dairy products. He has written many articles over the years on various subjects, including microbiology and biotechnology, and continues to develop his expertise in these subjects. Mr. Wan has also received numerous scholarships and research grants. Recently, he has gained research grants being a PhD scholarship relating to whey proteins and biological properties, as well as a major research grant for research relating to dairy processing.

Mr. Lau Chun Fai Douglas ("**Mr. Lau**"), aged 42, 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. Chan Yuk Tong ("**Mr. Chan**"), aged 52, 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 was an audit principal at Ernst & Young and a finance director and sales director at G2000 (Apparel) Limited. Mr. Chan has over 25 years of experience in auditing, accounting, managerial and financial consultation experience. His directorships of publicly listed companies are as follows:

Listed Company	**Role**	**Period**
Present engagements:		
FDG Electric Vehicles Limited (formerly known as Sinopoly Battery Limited)	INED	November 2006 to present
Global Sweeteners Holdings Limited	INED	June 2008 to present

Listed Company	Role	Period
Ground Properties Company Limited (formerly known as China Motion Telecom International Limited)	INED	November 2013 to present
Kam Hing International Holding Limited	INED	March 2004 to present
Past engagements:		
Anhui Conch Cement Company Limited	INED	June 2006 to May 2012
Asia Cassava Resources Holdings Limited	Executive director	July 2008 to August 2010
BYD Electronic (International) Company Limited	INED	November 2007 to July 2013
Daisho Microline Holdings Limited	INED	September 2004 to August 2013
Great Wall Motor Company Limited	INED	May 2010 to November 2010
Golden Shield Holdings (Industrial) Limited	Non-executive director	June 2014 to 5 December 2014
Trauson Holdings Company Limited	INED	June 2010 to July 2013 (date of withdrawal of listing)
Vitop Bioenergy Holdings Limited	Executive director Non-executive director	September 2005 to February 2008 February 2008 to May 2011
Xinhua Winshare Publishing And Media Co., Ltd.	INED	April 2006 to July 2013

SENIOR MANAGEMENT

Mr. Wong Wei Hua Derek ("**Mr. Wong**"), aged 43, is the Chief Financial Officer and the Company Secretary of the Company. Mr. Wong has over 18 years of experience in auditing and financial and corporate management. Mr. Wong graduated from York University with a bachelor degree in accounting and a bachelor degree in mathematics. He is a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in July 2011, he was an audit manager with an international accounting firm, the financial controller of a manufacturing group of companies and the general manager of an investment company principally engaged in mining business in Indonesia. Mr. Wong joined the Group as Deputy Chief Financial Officer of the Company in July 2011 and was appointed as the Joint Company Secretary (later redesignated as Company Secretary on 3 December 2012) and the Chief Financial Officer of the Company on 26 September 2011.

Mr. Liu Yuehui ("**Mr. Liu**"), aged 51, was appointed as the executive director of Ausnutria China on 7 June 2013. He joined the Group shortly after the establishment of Ausnutria China on 26 December 2003. Mr. Liu studied dairy techniques at the Inner Mongolia Light Manufacturing School*（內蒙古輕工業學校）. Mr. Liu has hold management positions in various dairy factories and has over 10 years of experience in the industry. Mr. Liu was the assistant 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 recruitment, human resource planning , R&D and administration of Ausnutria China since 2003.

Mr. Dai Zhiyong ("**Mr. Dai**"), aged 40, was appointed as the executive director of Ausnutria China on 7 June 2013. He joined the Group shortly after the establishment of Ausnutria China on 18 September 2003. Mr. Dai graduated from Xiang Tan University*（湘潭大學）with a degree in bachelor of chemistry. Mr. Dai held a management position in a dairy products company for a number of years and has over 10 years of experience in the industry. Mr Dai was employed by Hunan Ava Nanshan Dairy as the vice factory manager, the person in charge of the R&D department and was engaged in milk powder R&D works for Inner Mongolia Ya Ke Shi Ru Factory*（內蒙古牙克石乳品廠）. Mr. Dai is primarily responsible for managing the daily operations of the technical department of the Group and for ensuring the overall compliance status of the Group's new products and its development in the PRC.

Mr. Qu Zhishao ("**Mr. Qu**"), aged 37, is the vice-president and the general manager of the Puredo division 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 10 years of experience in the related industry.

Mr. Deng Shenhui ("**Mr. Deng**"), aged 41, is the information technology director and the general manager of e-commerce department 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 operation functions of the information technology center and e-commerce department of the Group.

Directors' and Senior Management's Biographies

Mr. Xiao Guoxiong ("**Mr. Xiao**"), aged 41, is the assistant to the chief executive officer 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 16 years of experience in the industry in relation to budgeting management and team performance management.

Mr. Liu Yubiao ("**Mr. Liu**"), aged 42, is the assistant to the chief executive officer of Ausnutria China and the general manager of the 1897 division. 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.

Ms. Li Yimin ("**Ms. Li**"), aged 40, 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. Ben Busser ("**Mr. Busser**"), aged 50, is the chief commercial officer of Ausnutria Hyproca. He joined the Ausnutria Hyproca Group in 2008. Mr. Busser graduated from Deventer Agricultural College in the Netherlands with a bachelor of science in Tropical Animal Husbandry. Mr. Busser has more than 12 years of experience in the marketing and sales of dairy products (infant formulas) and has worked for several multinational dairy companies in the Netherlands. Mr. Busser is a shareholder of DDI.

Mr. Evert Schilstra ("**Mr. Schilstra**"), aged 54, is the managing director of Hyproca Dairy Products B.V.. He joined Ausnutria Hyproca in 1996. Mr. Schilstra graduated from the Bolsward College in the Netherlands with a bachelor in food technology, specialised in the dairy industry. He has more than 31 years of experience in the dairy industry. Before joining Ausnutria Hyproca, he was engaged in the field of R&D, quality assurance, investment plans and operations and has worked for engineering, multinational and dairy companies in the Netherlands.

Mr. Alfred Haandrikman ("**Mr. Haandrikman**"), aged 57, is the manager of the R&D 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 R&D manager in Hercules European Research Centre, the Netherlands. From 2006 onwards, he was appointed as the global R&D director in Lipid Nutrition B.V. and IOI-Loders Croklaan group, a leading company in development of lipids for infant nutrition.

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

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

Mr. Jeroen Kiers ("**Mr. Kiers**"), aged 41, is the business development manager of Ausnutria Hyproca. He joined Ausnutria Hyproca since April 2014. Mr. Kiers holds a masters degree in medical biology, and was awarded with a doctorate degree in food science & technology, nutrition, and biotechnology from the Wageningen University in 2001. His drive, ambition, and experience has been centered around food and health (nutrition) with employments at Unilever, Friesland Foods, and NIZO food research in various roles within R&D, innovation, marketing, sales, and business development for the last 14 years.

Mrs. Petra Bakker ("**Mrs. Bakker**"), aged 49, is the human resources manager of Ausnutria Hyproca. Mrs. Bakker joined Ausnutria Hyproca since 2012. Mrs. Bakker graduated with a Master degree in business administration from the NCOI University at Utrecht, the Netherlands. She has also a bachelor degree of human resources management. Before joining Ausnutria Hyproca, Mrs. Bakker was the human resources manager of Otis B.V. in the Netherlands for more than 20 years. Otis B.V. is a leading company in development of elevators worldwide and is part of United Technologies (US).

* *For identification purposes only*

Corporate Governance Report

The Directors present the corporate governance report for the Year 2014.

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, save for the exceptions as set out in the following, the Company has complied with the respective code provisions of the CG Code during the Year 2014 and up to the date of this report.

1) Delay in publishing the 2012 and 2013 financial reports and convening 2012 and 2013 annual general meetings

As a result of the Unresolved Issues, Ernst & Young ("**Ernst & Young**"), the auditors of the Company, were unable to carry out an effective audit work for the Group for the year ended 31 December 2011, the Group has breached the financial reporting provisions under the Listing Rules in (i) announcing the annual/interim results and reports for the financial years ended 31 December 2012 and 2013 and for the six-months ended 30 June 2012 and 2013; and (ii) convening annual general meetings for the years ended 31 December 2012 and 2013.

On 27 June 2014 and 19 August 2014, the Company announced the annual/interim results for the financial years ended 31 December 2012 and 2013 and for the six-months ended 30 June 2012 and 2013, despatched the corresponding reports shortly afterwards, and convened annual general meetings for the years ended 31 December 2012 and 2013, respectively.

2) Code provision A.1.8

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

As disclosed in the "Other Information" section in the Company's interim report for the six months ended 30 June 2014, the previous directors and officers liability insurance lapsed on 7 October 2013 and the Company had entered into a new directors and officers liability insurance with another insurance company on 7 January 2014.

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 2014 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 2014 and up to the date of this report.

BOARD OF DIRECTORS

Responsibilities

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

Board Composition

The Board comprised seven members, including four executive Directors and three INEDs as at 31 December 2014. 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 31 to 37 of this report.

Corporate Governance Report

The members of the Board during the Year 2014 and up to the date of this report were as follows:

Executive Directors:
Mr. Yan Weibin
Mr. Lin Jung-chin (Appointed on 12 December 2014)
Mr. Bartle van der Meer
Ms. Ng Siu Hung

Non-executive Director:
Mr. Dai Li (Resigned on 4 March 2014)

Independent Non-executive Directors:
Mr. Qiu Weifa
Mr. Jason Wan
Mr. Lau Chun Fai Douglas (Appointed on 2 January 2015)
Mr. Chan Yuk Tong (Resigned on 2 January 2015)

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

An annual review of the composition of the Board according to the board diversity policy was recently done on 30 March 2015 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 of the Company, the approval of the interim and final results and other disclosures to the public or regulators are reserved by the Board for consideration and approval. Matters not specifically reserved to the Board and necessary for the daily management and operation of the Group are delegated to the executive committee of the Board and senior management of the Company.

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 and Chief Executive Officer

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

Independent Non-Executive Directors

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

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

All the 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 2014.

Appointment, Re-election and Removal of Directors

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

Remuneration of Directors and Senior Management

The remuneration of Directors and the members of the senior management by band for the Year 2014 is set out below:

Remuneration bands (HK$)	Number of persons
0 – 1,000,000	14
1,000,001 – 1,500,000	3
1,500,001 – 2,000,000	3
2,000,001 – 2,500,000	3
	23

Further particulars regarding Directors' and chief executive's remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in 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 2014

		2014 Board meeting	2013* AGM	2012* AGM
Executive Directors:				
Mr. Yan Weibin		6/6	1/1	1/1
Mr. Lin Jung-chin	(appointed on 12 December 2014)	N/A	N/A	N/A
Mr. Bartle van der Meer		6/6	1/1	1/1
Ms. Ng Siu Hung		6/6	1/1	1/1
Non-executive Director:				
Mr. Dai Li	(resigned on 4 March 2014)	1/1	N/A	N/A
Independent Non-executive Directors:				
Mr. Qiu Weifa		6/6	1/1	1/1
Mr. Jason Wan		6/6	1/1	1/1
Mr. Chan Yuk Tong	(resigned on 2 January 2015)	6/6	1/1	1/1

* Convened on 19 August 2014

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

Continuous Professional Development

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

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

During the Year 2014, 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 2014, 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 Company has established a nomination committee (the "**Nomination Committee**"), which comprises an executive Director and all the three INEDs.

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board and to review the diversity policy of the Board or the 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. Their written terms of reference of the Nomination Committee are in line with the code provisions of the CG Code.

During the Year 2014, 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 2014, the number of the Nomination Committee meetings held and details of the attendance were as follows:

Committee member	**Attendance**
Mr. Yan Weibin *(Chairman)*	2/2
Mr. Qiu Weifa	2/2
Mr. Jason Wan	2/2
Mr. Chan Yuk Tong *	2/2

* Subsequent to 31 December 2014, 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.

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 Company has set up a remuneration committee (the "**Remuneration Committee**"), which consists of an executive Director and all the three INEDs.

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

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

During the Year 2014, the number of the Remuneration Committee meetings held and details of the attendance were as follows:

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

* Subsequent to 31 December 2014, 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.

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. Their written terms of reference of the Audit Committee are in line with the code provisions of the CG Code.

During the Year 2014, the number of the Audit Committee meetings held and details of the attendance were as follows:

Committee member	Attendance
Mr. Qiu Weifa	2/2
Mr. Jason Wan	2/2
Mr. Chan Yuk Tong *(Chairman)**	2/2

* Subsequent to 31 December 2014, 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.

The Audit Committee has reviewed the Company's interim results for the six months ended 30 June 2014 and the annual results for the Year 2014, internal control and risk management 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 2014, 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 35 of this report, with details of his diversity of skills, expertise, experience and qualifications.

AUDITORS' REMUNERATION

For the Year 2014, the total fee paid or payable in respect of audit and non-audit services provided by the Group's external auditors amounted to RMB5,301,000 (including underprovisions in prior years of RMB1,750,000) and RMB169,000, respectively.

INTERNAL CONTROLS

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

The Board and the management of the Group aim to maintain a sound and effective system of internal control of the Group so as to ensure the effectiveness and efficiency of operations of the Group in achieving the established corporate objectives, safeguarding assets of the Group, rendering reliable financial reporting and complying with the applicable laws and regulations. During the Year 2014, the Board has conducted a review of the effectiveness of the internal control system of the Group. The Board is also responsible for making appropriate assertions on the adequacy of internal control and procedures. Through the Audit Committee, the Board reviews the effectiveness of these systems on a regular basis.

During the Year 2014, the internal audit department of the Company circulated a risk assessment report ("**Report**") to all the Directors, the Board decided to apply the Report to the whole Group and share the relevant materials within the Group to facilitate the strengthening of the internal controls, and suggested the executive committee of the Company to set up an ongoing risk assessment management team, comprising the members of the executive committee of the Company and a number of senior management, to continuously monitor the risk assessment as a result of the new developments from the market and operations on the semi-annual basis.

The Board believes that the existing internal control system is adequate and effective.

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 19 August 2014 at 8/F., XinDaXin Building A, 168 Huangxing Middle Road, Changsha, Hunan Province, the PRC for approval of, among other thing, the audited consolidated financial statements and the Report of the Directors and of the Auditors for the Year 2013, the general mandates to issue Shares and repurchase Shares, the re-election of Directors, final dividend 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 17 July 2014. 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 2014 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 Room 2101, Beautiful Group Tower, 77 Connaught Road Central, Central, Hong Kong. The Company Secretary forwards communications relating to matters within the Board's purview to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and consumer complaints, to the Chief Executive Officer.

Report of the Directors

The Directors present their report and the audited financial statements for the Year 2014.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company of the Group. The Group is principally engaged in the production, marketing and distribution of paediatric milk formula products. The Group is also engaged in the dairy industry in the Netherlands with activities ranging from research and development, milk collection, processing, production, packaging, marketing and sales of dairy products to customers in the Netherlands and other overseas countries. Details of the principal activities of the Company's subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the Year 2014.

An analysis of the Group's performance for the Year 2014 by operating segment is set out in note 4 to the financial statements of this report.

RESULTS AND DIVIDENDS

The Group's profit for the Year 2014 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 65 to 154 of this report.

Pursuant to the share purchase agreement dated 12 January 2015 in relation to the Ausnutria Hyproca Acquisition, the Company warranted not to declare dividends or other distribution before the completion or termination of this acquisition. In view of such, the Board does not recommend the payment of a final dividend for the Year 2014 (Year 2013: HK$0.10 per Share).

SUMMARY FINANCIAL INFORMATION

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year 2014 are set out in note 14 to the financial statements.

BANK AND OTHER BORROWINGS

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

SHARE CAPITAL

There was no movement in the Company's authorised or issued share capital during the Year 2014.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Shares during the Year 2014 and up to the date of this report.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year 2014 are set out in note 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2014, the Company's accumulated losses amounted to approximately RMB58,290,000 (31 December 2013: RMB42,862,000). The Company's share premium account, in the amount of RMB456,267,000 (31 December 2013: RMB456,267,000) as at 31 December 2014, may be distributed under certain conditions.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year 2014, sales to the Group's five largest customers accounted for less than 17.5% (Year 2013: 20.3%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 5.3% (Year 2013: 6.6%). Purchases from the Group's five largest suppliers accounted for approximately 28.3% (Year 2013: 21.9%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 14.3% (Year 2013: 6.3%).

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 2014 and up to the date of this report were as follows:

Executive Directors:

Mr. Yan Weibin	*(Chairman)*
Mr. Lin Jung-chin	(Appointed on 12 December 2014)
Mr. Bartle van der Meer	*(Chief Executive Officer)*
Ms. Ng Siu Hung	

Non-executive Director:

Mr. Dai Li	(Resigned on 4 March 2014)

Independent non-executive Directors:

Mr. Qiu Weifa	
Mr. Jason Wan	
Mr. Lau Chun Fai Douglas	(Appointed on 2 January 2015)
Mr. Chan Yuk Tong	(Resigned on 2 January 2015)

In accordance with Article 84 of the Articles of Association, Mr. Yan Weibin, Mr. Lin Jung-chin and Mr. Lau Chun Fai Douglas will retire by rotation at the conclusion of the forthcoming AGM and, being eligible, offer themselves for re-election. An ordinary resolution approving their re-elections will be proposed at the forthcoming AGM.

The Company has received confirmations of independence from each of the INEDs in accordance with Rule 3.13 of the Listing Rules for the Year 2014 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 2014.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and INEDs has entered into a service contract with the Company for a term of 3 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 38 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 2014.

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

As at 31 December 2014, the interests and short positions of the Directors and chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Name	Number of ordinary share	Nature of interest	Percentage of issued share capital
Mr. Yan Weibin ("**Mr. Yan**")	326,619,500	Interest of a controlled corporation	33.10%

Note:

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

Save as disclosed above, as at 31 December 2014, none of the Directors and chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the event after the reporting period as set out in note 42 to the financial statements, 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 2014, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as was known to, or can be ascertained after reasonable enquiry by the Directors, the following persons (other than the Directors and chief executive of the Company) had and interest or short position in the shares and underlying interests of 5% or more of the issued share capital of the Company were as follows:

Name	Number of ordinary share	Nature of interest	Percentage of issued share capital
Brave Leader [(1)]	126,619,550	Registered owner	12.83%
Ausnutria BVI [(2)]	200,000,000	Registered owner	20.27%
Center Lab [(4)]	134,977,075	Registered owner	13.68%
	133,219,375	Interest of controlled corporations	13.50%
BioEngine [(4)]	123,355,375	Registered owner	12.50%
Mr. Wu Yueshi ("**Mr. Wu**") [(1), (2)]	326,619,500	Interest of a controlled corporation	33.10%
Ms. Xiong Fanyi ("**Mrs. Wu**") [(3)]	326,619,500	Family interest	33.10%

Notes:

1. Brave Leader is owned as to 59.57% by Mr. Wu, 30.67% by Ms. Wu Xing Xing, the elder sister of Mr. Wu and 9.76% by Mr. Yan.

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

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

4. Center Lab is also deemed to be interested in 123,355,375 shares and 9,864,000 shares held by BioEngine and BioEngine Technology Development Inc., respectively. Both BioEngine and BioEngine Technology Development Inc. are non-wholly owned subsidiaries of Center Lab.

Save as disclosed above, as at 31 December 2014, no person, other than the Directors, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

Summary of terms

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

(a) Purpose

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

(b) The participants

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

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

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

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

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

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

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

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

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

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

(c) Maximum number of Shares

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

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

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

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

(d) ***Maximum entitlement of each participant and connected persons***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CONNECTED TRANSACTIONS

First Shareholder Loan Agreement

On 7 June 2013, Ausnutria (Dutch), as the lender, and Ausnutria Hyproca, as the borrower, and DDI entered into the shareholder loan agreement (the "**First Shareholder Loan Agreement**"), pursuant to which Ausnutria (Dutch) has provided the shareholder loan of 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 have been fulfilled and the First Shareholder Loan is extended for another 12 months to 6 June 2015.

Second Shareholder Loan Agreement

On 1 November 2013, Ausnutria (Dutch), as the lender, and Ausnutria Hyproca, as the borrower, and DDI entered into the second shareholder loan agreement (the "**Second Shareholder Loan Agreement**") in relation to the granting of the second shareholder loan of 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 have been fulfilled and the Second Shareholder Loan is extended for another 12 months to 31 October 2015.

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 chief executive officer of the Company. Therefore, Mr. van der Meer, DDI and Ausnutria Hyproca are connected persons of the Company under Chapter 14A of the Listing Rules and the transactions contemplated under the above agreements constitute connected transactions of the Company under the Listing Rules.

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

CONTINUING CONNECTED TRANSACTIONS

During the Year 2014, the Company had the following continuing connected transactions, which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

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

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

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

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 38 to the financial statements constitute connected transactions of the Group. The Directors are also not aware any other transactions constitute connected transactions of the Group for the Year 2014, which are subject to reporting, announcement and independent shareholder's approval requirements under Chapter 14A of the Listing Rules.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the Year 2014 and up to the date of this report, the Ausnutria Hyproca Group supplies paediatric milk formula products not only to the Group but also to other distributors in the PRC. Further, the Ausnutria Hyproca Group also distributes dairy products worldwide including the PRC under its separate brand. As such. Mr. van der Meer, being an associate of Ausnutria Hyproca, is deemed to have a competing interest with the business of the Ausnutria Group by such reason.

Save as disclosed above, during the Year 2014 and up to date of this report, none of the Directors nor their respective associates had any businesses or interests which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

COMPLIANCE ADVISORS' INTEREST

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

On 7 June 2013, the Company appointed 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 7 June 2013. During the term of the appointment, ACCF will be accountable to the Audit Committee. As notified by ACCF, during the period from 7 June 2013 up to the date of this report, neither ACCF nor any of its directors, employees or associates had any interests in the Shares or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the Shares or any member of the Group.

SUFFICIENCY OF PUBLIC FLOAT

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

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 38 to 49 of this report.

EVENT AFTER THE REPORTING PERIOD

Details of the significant event of the Group after the reporting period are set out in note 42 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 2015

Independent auditors' report

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, 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 (together, the "**Group**") set out on pages 65 to 154, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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 state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
30 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
REVENUE	5	1,966,047	1,687,781
Cost of sales		(1,398,842)	(1,216,026)
Gross profit		567,205	471,755
Other income and gains	5	29,325	25,884
Selling and distribution expenses		(336,000)	(227,757)
Administrative expenses		(105,285)	(84,742)
Other expenses		(11,621)	(20,939)
Finance costs	7	(10,310)	(6,406)
Share of profits of associates		3,959	–
Profit before tax	6	137,273	157,795
Income tax expense	10	(20,552)	(30,930)
PROFIT FOR THE YEAR		116,721	126,865
Attributable to:			
Owners of the parent	12	90,219	120,705
Non-controlling interests		26,502	6,160
		116,721	126,865
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– basic and diluted	13	RMB9.14 cents	RMB12.23 cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
PROFIT FOR THE YEAR		116,721	126,865
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(31,617)	2,889
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		(31,617)	2,889
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Remeasurement losses on the defined benefit plan		(3,047)	(173)
Income tax effect		731	42
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		(2,316)	(131)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		(33,933)	2,758
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		82,788	129,623
Attributable to:			
Owners of the parent	12	72,875	122,278
Non-controlling interests		9,913	7,345
		82,788	129,623

Consolidated Statement of Financial Position

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	483,162	360,996
Prepaid land lease payments	15	2,028	2,085
Goodwill	16	75,713	85,495
Other intangible assets	17	44,497	33,526
Investments in associates	19	30,101	–
Deferred tax assets	29	47,522	29,838
Total non-current assets		683,023	511,940
CURRENT ASSETS			
Inventories	20	515,559	315,653
Trade and bills receivables	21	163,562	175,647
Prepayments, deposits and other receivables	22	104,335	120,423
Tax recoverable		6,511	8,582
Pledged deposits	27	216,900	213,000
Time deposits	23	465,100	496,295
Cash and cash equivalents	23	278,277	161,161
Total current assets		1,750,244	1,490,761
CURRENT LIABILITIES			
Trade payables	24	184,215	167,951
Other payables and accruals	25	373,469	256,553
Derivative financial instruments	26	404	716
Interest-bearing bank loans and other borrowings	27	517,197	259,986
Tax payable		46,411	37,484
Total current liabilities		1,121,696	722,690
NET CURRENT ASSETS		628,548	768,071
TOTAL ASSETS LESS CURRENT LIABILITIES		1,311,571	1,280,011

Consolidated Statement of Financial Position

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		1,311,571	1,280,011
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	27	51,864	36,852
Defined benefit plan	28	15,709	18,454
Deferred tax liabilities	29	29,070	30,239
Total non-current liabilities		96,643	85,545
Net assets		1,214,928	1,194,466
EQUITY			
Equity attributable to owners of the parent			
Issued capital	31	86,866	86,866
Reserves	32(a)	1,020,894	945,355
Proposed final dividend	11	–	77,589
		1,107,760	1,109,810
Non-controlling interests		107,168	84,656
Total equity		1,214,928	1,194,466

Mr. Yan Weibin
Director

Mr. Bartle van der Meer
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2014

	Attributable to owners of the parent									
	Issued capital RMB'000 (note 31)	Share premium account RMB'000	Capital reserve RMB'000 (note 32(a))	Statutory surplus reserve RMB'000 (note 32(a))	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000 (note 11)	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014	86,866	456,267	14,310	48,136	(10,930)	437,572	77,589	1,109,810	84,656	1,194,466
Profit for the 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 (note 33)	–	–	2,664	–	–	–	–	2,664	11,990	14,654
Contribution from non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	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

Consolidated Statement of Changes in Equity

Year ended 31 December 2014

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

* These components of equity comprise the consolidated reserves of RMB1,020,894,000 (2013: RMB945,355,000) as at 31 December 2014 in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		137,273	157,795
Adjustments for:			
Finance costs	7	10,310	6,406
Share of profits of associates		(3,959)	–
Interest income	5	(22,821)	(21,350)
Interest income on held-to-maturity investments	5	–	(2,564)
Depreciation	6	40,208	32,172
Amortisation of other intangible assets	6	8,277	5,788
Amortisation of prepaid land lease payments	6	57	57
Impairment of property, plant and equipment	6	260	1,850
Write-off of trade receivables	6	397	2,781
Write-off of other receivables	6	720	–
Write-down of inventories to net realisable value	6	7,172	1,030
Loss on disposal of items of other intangible assets	6	442	–
		178,336	183,792
Increase in inventories		(243,771)	(122,708)
Decrease/(increase) in trade and bills receivables		3,770	(35,624)
Decrease/(increase) in prepayments, deposits and other receivables		7,750	(37,148)
Increase in trade payables		34,212	60,939
Increase in other payables and accruals		123,508	26,597
Cash generated from operations		103,805	75,848
Interest received		23,751	16,608
Interest paid		(9,953)	(6,251)
Mainland China corporate income tax paid		(30,861)	(4,176)
Overseas tax refunded/(paid)		(863)	594
Net cash flows from operating activities		85,879	82,623
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(206,500)	(126,735)
Proceeds from disposal of items of property, plant and equipment		10	83
Additions to other intangible assets	17	(7,178)	(8,761)
Proceeds from disposal of items of other intangible assets		–	200
Increase in time deposits		(465,100)	(496,295)
Increase in pledged time deposits		(3,900)	(213,000)
Maturity of time deposits		496,295	420,000
Interest income on held-to-maturity investments		–	2,564
Investments in associates		(26,142)	–
Proceeds received from a held-to-maturity investment		–	60,000
Net cash flows used in investing activities		(212,515)	(361,944)

Consolidated Statement of Cash Flows

Year ended 31 December 2014

	Note	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings		312,627	163,569
Repayment of bank loans		(3,656)	(3,708)
Repayment of other borrowings		(2,588)	(817)
Contributions from non-controlling shareholders of subsidiaries		609	1,016
Dividends paid		(77,589)	–
Interest element of finance lease rental payments		(607)	(573)
Net cash flows from financing activities		228,796	159,487
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		102,160	(119,834)
Cash and cash equivalents at beginning of year		161,161	282,714
Effect of foreign exchange rate changes, net		14,956	(1,719)
CASH AND CASH EQUIVALENTS AT END OF YEAR		278,277	161,161
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	23	278,277	161,161

Statement of Financial Position

31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	171,320	171,320
Total non-current assets		171,320	171,320
CURRENT ASSETS			
Prepayments, deposits and other receivables	22	444,301	531,481
Cash and cash equivalents	23	3,926	8,659
Total current assets		448,227	540,140
CURRENT LIABILITIES			
Other payables and accruals	25	33,258	33,671
Total current liabilities		33,258	33,671
NET CURRENT ASSETS		414,969	506,469
TOTAL ASSETS LESS CURRENT LIABILITIES		586,289	677,789
Net assets		586,289	677,789
EQUITY			
Issued capital	31	86,866	86,866
Reserves	32(b)	499,423	513,334
Proposed final dividend	11	–	77,589
Total equity		586,289	677,789

Mr. Yan Weibin
Director

Mr. Bartle van der Meer
Director

Notes to the Financial Statements

31 December 2014

1. CORPORATE INFORMATION

Ausnutria Dairy Corporation Ltd (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2009. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal offices of the Group are located at Floor 8, XinDaXin Building, No. 168, HuangXing Road (M), Changsha City, Hunan Province, Mainland China; at Room 2101, Beautiful Group Tower, 77 Connaught Road Central, Central, Hong Kong; and at Burgemeester Falkenaweg 58-1 (8442LE), Heerenveen, 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.

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"). These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in Sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for derivative financial instruments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2014. 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.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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 and a new interpretation for the first time for the current year's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised)	*Investment Entities*
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC 21	*Levies*
Amendment to IFRS 2 included in *Annual Improvements 2010-2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to IFRS 3 included in *Annual Improvements 2010-2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to IFRS 13 included in *Annual Improvements 2010-2012 Cycle*	*Short-term Receivables and Payables*
Amendment to IFRS 1 included in *Annual Improvements 2011-2013 Cycle*	*Meaning of Effective IFRSs*

1 Effective from 1 July 2014

The adoption of the above revised standards and a new interpretation has had no significant effect on the financial statements of the Group.

2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED

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

IFRS 9	*Financial Instruments*[4]
Amendments to IFRS 10 and IAS 28 (Revised)	*Sale or Contribution of Assets between an Associate or Joint Venture*[2]
Amendments to IFRS 10, IFRS 12 And IAS 28 (Revised)	*Investment Entities: Applying the Consolidation Exception*[2]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
IFRS 14	*Regulatory Deferral Accounts*[5]
IFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to IAS 1	*Disclosure Initiative*[2]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[2]
Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to IAS 27 (Revised)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010-2012 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2011-2013 Cycle	Amendments to a number of IFRSs[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs[2]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
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

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

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.

2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)

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 expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to IFRS 10 and IAS 28 (Revised) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (Revised) 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.

IFRS 15 establishes a new five-step model that will apply to 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. The Group expects to adopt IFRS 15 on 1 January 2017 and is currently assessing the impact of IFRS 15 upon adoption.

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.

The Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle sets out amendments to a number of IFRSs. Except for those described in note 2.2, the Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

2.3 NEW AND REVISED IFRSs AND NEW DISCLOSURE REQUIREMENTS UNDER THE HONG KONG COMPANIES ORDINANCE NOT YET ADOPTED (continued)

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 Annual Improvements to IFRSs 2012-2014 Cycle sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2016. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 *Non-current Asset held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of profit or loss and other comprehensive income. 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

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

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

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

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

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

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

Property, plant and equipment and depreciation

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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

Construction in progress represents a building 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs (continued)

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.

Leases

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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.

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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

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

Assets carried at cost

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings

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

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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 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.

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

Inventories

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

Cash and cash equivalents

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

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

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

Government grants

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

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

Employee benefits

Pension schemes

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

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

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 defined benefit pension plans, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined benefit plan (continued)

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

- the date of the plan amendment or curtailment; and

- the date that the Group recognises restructuring-related costs

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

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

- net interest expense or income

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

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

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

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

The functional currencies of certain overseas subsidiaries 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 the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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 2014 was RMB75,713,000 (2013: RMB85,495,000). Further details are given in note 16.

Impairment of non-financial assets (other than goodwill)

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainly (continued)

Impairment of trade receivables

Impairment of trade receivables is made based on an assessment of the recoverability of trade receivables. The identification of impairment requires management 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 2014 (2013: Nil). Further details are contained in note 21.

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 29.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances. The depreciation provided for the year ended 31 December 2014 was RMB40,208,000 (2013: RMB32,172,000). Further details are contained in note 14.

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 has two reportable operating segments in 2014 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 pledged deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 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

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2013

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

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

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2014 RMB'000	2013 RMB'000
The PRC	1,080,192	878,180
European Union	536,681	567,854
Middle East	98,782	80,969
United States	103,996	74,025
Others	146,396	86,753
	1,966,047	1,687,781

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

(b) Non-current assets

	2014 RMB'000	2013 RMB'000
The PRC	78,295	78,955
The Netherlands	557,206	403,147
	635,501	482,102

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 (2013: Nil).

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Notes	2014 RMB'000	2013 RMB'000
Revenue			
Sale of goods		1,966,047	1,687,781
Other income and gains			
Interest income		22,821	21,350
Interest income on held-to-maturity investments		–	2,564
Insurance claim for business interruption		2,634	–
Government grants	(i)	930	1,426
Management fees income from the associates	38(a)	910	–
Others		2,030	544
Total other income and gains		29,325	25,884

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

6. PROFIT BEFORE TAX

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

	Notes	2014 RMB'000	2013 RMB'000
Cost of inventories sold		1,391,670	1,214,996
Write-down of inventories to net realisable value		7,172	1,030
Cost of sales		1,398,842	1,216,026
Depreciation	14	40,208	32,172
Amortisation of lease prepayments for land use rights	15	57	57
Amortisation of other intangible assets	17	8,277	5,788
Research and development costs		15,933	16,937
Minimum lease payments under operating leases for buildings		2,909	3,241
Foreign exchange differences, net*		74	1,079
Write-off of trade receivables*		397	2,781
Write-off of other receivables*		720	–
Impairment of property, plant and equipment*	14	260	1,850
Loss on disposal of items of other intangible assets*		442	–
Auditors' remuneration:			
Current charge for the year		3,551	4,766
Underprovisions in prior years		1,750	–
		5,301	4,766
Advertising and promotion expenses		146,372	83,962
Professional fees*		9,449	11,243
Employee benefit expenses (including directors' remuneration) (note 8):			
Wages, salaries and staff welfare		215,189	174,463
Pension scheme contributions**		18,070	15,331
		233,259	189,794

* The write-off of trade receivables, write-off of other receivables, foreign exchange differences, impairment of property, plant and equipment, loss on disposal of items of other intangible assets and professional fees in relation to the handling of the issues in relation to suspension in the trading of the Company's shares on the Stock Exchange (the "Unresolved Issues") are included in other expenses in the consolidated statement of profit or loss and other comprehensive income.

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Interest on bank loans, overdrafts and other loans	14,740	6,251
Interest on finance leases	607	573
Total interest expense on financial liabilities not at fair value through profit or loss	15,347	6,824
Less: Interest capitalised	(4,787)	–
	10,560	6,824
Other finance costs:		
Unrealised gain on an interest rate swap (note 26):	(250)	(418)
	10,310	6,406

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules and section 78 of Schedule 11 to the Hong Kong Companies Ordinance (Cap.622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap.32), is as follows:

	Group	
	2014	2013
	RMB'000	RMB'000
Fees	1,629	2,157
Other emoluments:		
Salaries, allowances and benefits in kind	2,442	1,682
Pension scheme contributions	14	16
	2,456	1,698
	4,085	3,855

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:

	2014 RMB'000	2013 RMB'000
Qiu Weifa	143	96
Jason Wan	143	96
Chan Yuk Tong	884	1,487
	1,170	1,679

Save for the payment of a fee to Mr. Chan Yuk Tong commencing since March 2013 for his acting as the member of the special review committee (the "SRC") to assist on the follow-up of the Unresolved Issues of RMB600,000 (2013: RMB1,200,000), there were no other emoluments payable to the independent non-executive directors during the year (2013: Nil).

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

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

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

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

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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2013: Nil).

Notes:

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

(ii) Mr. Lin Jung-chin was appointed as an executive director of the Company with effect from 12 December 2014.

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

(iv) Mr. Dai Li ("Mr. Dai") was appointed as a non-executive director of the Company on 7 June 2013. On 4 March 2014, Mr. Dai has resigned as a non-executive director of the Company.

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

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2013: two) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2013: three) non-director, highest paid employees for the year are as follows:

	Group	
	2014 RMB'000	2013 RMB'000
Salaries, allowances and benefits in kind	5,505	4,355
Pension scheme contributions	680	520
Total	6,185	4,875

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

	Number of employees	
	2014	2013
HK$1,500,001 to HK$2,000,000	2	1
HK$2,000,001 to HK$2,500,000	2	2
Total	4	3

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 (2013: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates. Under the PRC income tax laws, enterprises are subject to 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 is granted the preferential CIT tax rate of 15% for another three years ending 31 December 2015.

	Group	
	2014	2013
	RMB'000	RMB'000
Current charge for the year – Mainland China		
Charge for the year	**40,480**	35,101
Overprovision in prior years	**(692)**	(2,706)
Current charge for the year – The Netherlands		
Charge for the year	**2,921**	527
Overprovision in prior years	**(871)**	(74)
Deferred income tax (note 29)	**(21,286)**	(1,918)
Total tax charge for the year	**20,552**	30,930

10. INCOME TAX (continued)

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

Group – 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 recognised	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

Group – 2013

	Hong Kong		The Netherlands		Mainland China		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	(2,301)		7,435		171,199		(18,538)		157,795	
Income tax at the statutory income tax rate	(380)	16.5	1,775	23.9	42,800	25.0	–	–	44,195	28.0
Tax effects on preferential tax rates	–	–	–	–	(16,067)	(9.4)	–	–	(16,067)	(10.2)
Non-deductible items and others, net	–	–	1,067	14.3	1,143	0.7	–	–	2,210	1.4
Effect of withholding tax at 10% on the distributable profits of the Group's PRC subsidiary	–	–	–	–	5,556	3.2	–	–	5,556	3.5
Additional deduction of expenses	–	–	(2,016)	(27.1)	(548)	(0.3)	–	–	(2,564)	(1.6)
Tax losses not recognised	380	(16.5)	–	–	–	–	–	–	380	0.3
Adjustments in respect of current tax in previous periods	–	–	(74)	(1.0)	(2,706)	(1.6)	–	–	(2,780)	(1.8)
Tax charge at the Group's effective rate	–	–	752	10.1	30,178	17.6	–	–	30,930	19.6

The share of tax attributable to associates amounting to RMB990,000 (2013: Nil), is included in "Share of profits of associates" in the consolidated statement of profit or loss and other comprehensive income.

11. DIVIDENDS

	2014 RMB'000	2013 RMB'000
Proposed final – Nil (2013: HK$0.10) per ordinary share	–	77,589

The proposed final dividend for the year ended 31 December 2013 which was approved by the Company's shareholders at the 2013 annual general meeting on 19 August 2014 was paid out of Company's share premium account.

12. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2014 includes a loss of RMB15,428,000 (2013: RMB17,459,000) which has been dealt with in the financial statements of the Company (note 32(b)).

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 986,843,000 (2013: 986,843,000) in issue during the year.

Earnings

	2014 RMB'000	2013 RMB'000
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	90,219	120,705

Shares

	2014	2013
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	986,843,000	986,843,000

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2014 and 2013 in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during those years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 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 17)	–	–	–	–	–	(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

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

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

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The net carrying amount of the Group's fixed assets held under finance leases included in the total amount of machinery at 31 December 2014 amounted to EUR3,315,000 (equivalent to approximately RMB24,715,000) (2013: EUR125,000, equivalent to approximately RMB1,052,000).

At 31 December 2014, certain of the Group's land and buildings, and plant and equipment that were attributed to the Ausnutria Hyproca Group and located in the Netherlands with net carrying amounts of EUR14,766,000 (equivalent to approximately RMB110,089,000) (2013: EUR8,484,000, equivalent to approximately RMB71,426,000) and EUR28,391,000 (equivalent to approximately RMB211,672,000) (2013: EUR22,085,000, equivalent to approximately RMB185,934,000), respectively, were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 27(b)).

The Group's land included in property, plant and equipment with a net carrying amount of EUR7,354,000 (equivalent to approximately RMB54,826,000) (2013: EUR2,157,000, equivalent to approximately RMB18,163,000) is situated in the Netherlands and is held as freehold land.

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2014	2013
	RMB'000	RMB'000
Carrying amount at 1 January	**2,142**	2,199
Amortised during the year	**(57)**	(57)
Carrying amount at 31 December	**2,085**	2,142
Current portion included in prepayments, deposits and other receivables	**(57)**	(57)
Non-current portion	**2,028**	2,085

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

16. GOODWILL

	Group	
	2014	2013
	RMB'000	RMB'000
At 1 January:		
Cost	85,495	84,466
Accumulated impairment	–	–
Net carrying amount	85,495	84,466
Cost at 1 January, net of accumulated impairment	85,495	84,466
Exchange realignment	(9,782)	1,029
Cost at 31 December, net of accumulated impairment	75,713	85,495
At 31 December:		
Cost	75,713	85,495
Accumulated impairment	–	–
Net carrying amount	75,713	85,495

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 B.V. ("Hyproca Dairy"), Lypack Leeuwarden B.V. ("Lypack"), Hyproca Nutrition B.V. ("Hyproca Nutrition") and Lyempf Kampen B.V. ("Hyproca Lyempf").

Product cash-generating unit

The recoverable amount of the product cash-generating unit has been determined based on a fair value less costs to sell calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 10%. The growth rate used to extrapolate the cash flows of the product cash-generating unit beyond the five-year period is 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 2014. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

Product cash-generating unit (continued)

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

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

17. OTHER INTANGIBLE ASSETS

Group

	Non-patent technology RMB'000	Trademarks RMB'000	Software RMB'000	Milk collection right RMB'000	Others RMB'000	Total RMB'000
31 December 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 (note 33)	–	–	–	16,366	–	16,366
Transfers from property, plant and equipment (note 14)	–	–	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. 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 2013						
At 1 January 2013:						
Cost	969	835	17,564	20,065	572	40,005
Accumulated amortisation	(512)	(138)	(6,059)	(3,170)	(19)	(9,898)
Net carrying amount	457	697	11,505	16,895	553	30,107
Cost at 1 January 2013, net of accumulated amortisation	457	697	11,505	16,895	553	30,107
Additions	3,582	525	3,346	–	1,308	8,761
Transfers from property, plant and equipment (note 14)	–	–	296	–	–	296
Disposals	–	–	–	–	(200)	(200)
Amortisation provided during the year	(133)	(219)	(2,905)	(2,522)	(9)	(5,788)
Exchange realignment	80	7	81	151	31	350
At 31 December 2013	3,986	1,010	12,323	14,524	1,683	33,526
At 31 December 2013:						
Cost	4,632	1,369	21,355	20,309	1,712	49,377
Accumulated amortisation	(646)	(359)	(9,032)	(5,785)	(29)	(15,851)
Net carrying amount	3,986	1,010	12,323	14,524	1,683	33,526

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2014 RMB'000	2013 RMB'000
Unlisted shares, at cost	**171,320**	171,320

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of RMB442,365,000 (2013: RMB530,740,000) and RMB31,852,000 (2013: RMB30,853,000), respectively, are unsecured, interest-free and have no fixed terms of repayment.

18. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary shares/ registered capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Spring Choice Limited	British Virgin Islands	US$200	100	–	Investment holding
Ausnutria Dairy Co., Ltd.	Hong Kong	HK$1	–	100	Investment holding
Ausnutria Australia Dairy Pty Ltd.	Australia	AU$500,000	–	100	Investment holding
Ausnutria China*	The PRC/ Mainland China	RMB68,633,832	–	100	Production, marketing and distribution of paediatric nutrition products in Mainland China
Ausnutria Dairy (HK) Company Limited	Hong Kong	HK$100	–	100	Marketing and distribution of paediatric nutrition products in Hong Kong
Ausnutria Dairy (Dutch) Coöperatief U.A. ("Ausnutria (Dutch)")	The Netherlands	EUR13,800,000	–	100	Investment holding
Ausnutria Dairy Investment B.V.	The Netherlands	EUR1	–	100	Investment holding
Ausnutria Hyproca B.V.	The Netherlands	EUR4,086,000	–	51	Investment holding
Hyproca Nutrition Co., Ltd.** ("HNC")	The PRC/ Mainland China	RMB10,000,000	–	43.4#	Marketing and distribution of goat milk based nutrition products in Mainland China
Hyproca Dairy***	The Netherlands	EUR18,200	–	51#	Manufacture of nutrition products
Lypack***	The Netherlands	EUR18,151	–	51#	Processing and packaging of nutrition products

18. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary shares/ registered capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Hyproca Nutrition***	The Netherlands	EUR725,358	–	51#	Marketing and distribution of goat milk based nutrition products
Hyproca Lyempf***	The Netherlands	EUR21,500	–	51#	Manufacture of nutrition products
Neolac (Shanghai) Nutrition Co. Ltd.*	The PRC/ Mainland China	RMB10,000,000	–	51#	Trading of nutrition products in Mainland China
Hyproca Nutrition East Limited	Hong Kong/ Russia	HK$4,000,000	–	26#	Trading of nutrition products in Russia
Hyproca Nutrition Middle East FZCO	Dubai	AED1,500,000	–	30.6#	Trading of nutrition products
Hyproca Nutrition USA Inc.	United States	US$1	–	38.3#	Trading of nutrition products in the United States
Hyproca Nutrition Canada Inc.	Canada	EUR72	–	38.3#	Trading of nutrition products in Canada

* Wholly-foreign-owned enterprise

** Sino-foreign equity joint venture

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

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

During the year, the Ausnutria Hyproca Group acquired the entire equity interests in Sanimel B.V. ("Sanimel"), a company incorporated in the Netherlands and engaged in the collection and trading of goat milk. Further details of this acquisition are included in note 33.

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

18. INVESTMENTS IN 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. Giving details of all subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

	2014	2013
Percentage of equity interest held by non-controlling interests:		
Hyproca Lyempf	49%	49%
Lypack	49%	49%
HNC	56.6%	56.6%

	2014 RMB'000	2013 RMB'000
Profit/(loss) for the year allocated to non-controlling interests:		
Hyproca Lyempf	(13,201)	(3,851)
Lypack	14,280	10,399
HNC	16,885	5,970
Accumulated balances of non-controlling interests at the reporting dates:		
Hyproca Lyempf	18,794	34,899
Lypack	4,198	(10,055)
HNC	28,319	11,434

18. INVESTMENTS IN SUBSIDIARIES (continued)

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

2014	HNC RMB'000	Hyproca Lyempf RMB'000	Lypack RMB'000
Revenue	259,371	556,877	800,545
Total expenses	(229,565)	(583,818)	(771,402)
Profit/(loss) for the year	29,806	(26,941)	29,143
Total comprehensive income/(loss) for the year	29,806	(26,941)	29,143
Current assets	123,358	136,812	146,195
Non-current assets	13,777	155,554	39,687
Current liabilities	(86,636)	(251,428)	(147,886)
Non-current liabilities	(510)	(2,584)	(29,428)
Net cash flows from/(used in) operating activities	14,484	(65,987)	46,313
Net cash flows used in investing activities	(66)	(49,163)	(878)
Net cash flows from/(used in) financing activities	–	115,150	(45,440)
Net increase/(decrease) in cash and cash equivalents	14,418	–	(5)

2013	HNC RMB'000	Hyproca Lyempf RMB'000	Lypack RMB'000
Revenue	137,687	389,920	496,735
Total expenses	(127,149)	(397,779)	(475,513)
Profit/(loss) for the year	10,538	(7,859)	21,222
Total comprehensive income/(loss) for the year	10,538	(7,859)	21,222
Current assets	45,638	110,462	174,470
Non-current assets	4,315	124,714	43,905
Current liabilities	(29,770)	(160,698)	(229,954)
Non-current liabilities	–	(3,255)	(8,941)
Net cash flows from/(used in) operating activities	(4,473)	44,736	(59,962)
Net cash flows used in investing activities	(147)	(30,979)	(23,774)
Net cash flows from/(used in) financing activities	–	(13,757)	83,732
Net decrease in cash and cash equivalents	(4,620)	–	(4)

19. INVESTMENTS IN ASSOCIATES

	Group	
	2014 RMB'000	2013 RMB'000
Share of net assets	26,076	–
Goodwill on acquisition	4,025	–
	30,101	–

Particulars of the associates are as follows:

Name	Particulars of issued shares held	Place of incorporation and business	Percentage of ownership interest attributable to the Group	Principal activities
Farmel Holding B.V.	Ordinary shares of EUR1 each	The Netherlands	25.5	Investment holding
Farmel Dairy B.V.	Ordinary shares of EUR1 each	The Netherlands	25.5	Collection and trading of cow and goat milk
Farmel Dairy Products B.V.	Ordinary shares of EUR1 each	The Netherlands	25.5	Collection and trading of cow and goat milk

The Group's shareholdings in the associates represent the equity shares which are 50% held by Ausnutria Hyproca, a 51%-owned subsidiary of the Company.

The financial years of the above associates are coterminous with that of the Group. The above associates are principally engaged in the trading of cow and goat milk and are accounted for using the equity method.

19. INVESTMENTS IN ASSOCIATES (continued)

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

	2014 RMB'000	2013 RMB'000
Share of the associates' profit for the period	3,959	–
Share of the associates' total comprehensive income	3,959	–
Aggregate carrying amounts of the Group's investments in the associates (including goodwill on acquisition)	30,101	–

20. INVENTORIES

	Group	
	2014 RMB'000	2013 RMB'000
Raw materials	184,909	154,771
Finished goods	326,969	156,885
Others	3,681	3,997
Total	515,559	315,653

At 31 December 2014, certain of the Group's inventories that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR40,879,000 (equivalent to approximately RMB304,777,000) (2013: EUR24,142,000, equivalent to approximately RMB203,249,000) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 27(b)).

21. TRADE AND BILLS RECEIVABLES

	Group	
	2014 RMB'000	2013 RMB'000
Trade receivables	124,115	140,528
Bills receivable	39,447	35,119
Total	163,562	175,647

21. TRADE AND BILLS RECEIVABLES (continued)

The Group normally allows a credit period from 1 to 12 months (2013: 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 EUR602,000 (equivalent to approximately RMB4,491,000) (2013: Nil) which are repayable on similar credit terms to those offered to the major customers of the Group.

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

	2014 RMB'000	2013 RMB'000
Within 3 months	106,602	105,426
3 to 6 months	11,396	16,762
6 months to 1 year	3,146	18,044
Over 1 year	2,971	296
Total	124,115	140,528

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

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

	2014 RMB'000	2013 RMB'000
Neither past due nor impaired	105,788	118,678
Within 3 months past due	13,370	19,511
3 months to 1 year past due	4,957	2,339
Total	124,115	140,528

21. 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 2014, certain of the Group's trade receivables that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR14,786,000 (equivalent to approximately RMB110,239,000) (2013: EUR13,260,000, equivalent to approximately RMB111,635,000) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group (note 27(b)).

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2014	2013	2014	2013
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments to suppliers		15,298	46,703	–	–
Due from subsidiaries	18	–	–	442,365	530,740
Insurance claims		26,691	18,127	–	–
Interest income receivable		13,664	14,594	–	–
Other tax recoverable		15,113	11,296	–	–
Others		33,569	29,703	1,936	741
		104,335	120,423	444,301	531,481

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.

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

		Group		Company	
	Note	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Cash and bank balances		278,277	161,161	3,926	8,659
Time deposits		682,000	709,295	–	–
		960,277	870,456	3,926	8,659
Less: Pledged deposits	27(b)(v)	(216,900)	(213,000)	–	–
Non-pledged time deposits with maturity of between 3 months to 12 months		(465,100)	(496,295)	–	–
Cash and cash equivalents in the consolidated statement of financial position		278,277	161,161	3,926	8,659

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB260,679,000 (2013: RMB144,169,000). In addition, all the time deposits of the Group were denominated in RMB. The RMB is not freely convertible in the international market. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to convert RMB into other currencies through banks to conduct foreign exchange business.

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

24. TRADE PAYABLES

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

	Group	
	2014 RMB'000	2013 RMB'000
Within 12 months	184,107	167,942
Over 12 months	108	9
	184,215	167,951

24. TRADE PAYABLES (continued)

Included in the trade payables, amount due to associates of EUR4,215,000 (equivalent to approximately RMB31,425,000) (2013: Nil) are repayable within 45 days.

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

25. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2014	2013	2014	2013
	Note	RMB'000	RMB'000	RMB'000	RMB'000
Advances from customers		81,546	44,941	–	–
Deferred income		99,480	70,128	–	–
Deposits		13,705	15,547	–	–
Due to subsidiaries	18	–	–	31,852	30,853
Accrued salaries and welfare		35,650	25,338	–	–
Other tax payables		18,393	14,705	–	–
Provision for claims from customers		11,929	8,915	–	–
Other payables		39,354	36,995	1,406	2,818
Accruals		73,412	39,984	–	–
		373,469	256,553	33,258	33,671

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

26. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2014	2013
	RMB'000	RMB'000
Interest rate swaps entered into by the Ausnutria Hyproca Group	404	716

The Ausnutria Hyproca Group has entered into various interest rate swap contracts to manage its interest rate exposures. These interest rate swaps are measured at fair value through profit or loss. A net fair value gain on these interest rate swaps amounting to RMB250,000 (2013: gain of RMB418,000) and a net exchange gain amounting to RMB62,000 (2013: loss of RMB5,000) were recognised in profit or loss for the year ended 31 December 2014.

27. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

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

Group

	2014			2013		
	Annual effective interest rate (%)	Maturity	RMB'000	Annual effective interest rate (%)	Maturity	RMB'000
Current						
Finance lease payables (note 30)	3.0 – 4.56	2015	4,271	3.0	2014	427
Bank overdrafts – secured	1 month EURIBOR+2.0	2015	187,325	1 month EURIBOR+2.0	2014	171,581
Bank loan – secured	3 month LIBOR+1.8	2015	74,556	3 month EURIBOR+1.8	2014	84,189
Bank loan – secured	3 month LIBOR+2.2	2015	74,556	–	–	–
Bank loan – secured	3 month HIBOR+2.1	2015	86,779	–	–	–
Bank loan – secured	12 month HIBOR+2.55	2015	31,556	–	–	–
Current portion of long-term bank loans – secured	4.45*	2015	1,864	4.45*	2014	2,105
Current portion of long-term bank loans – secured	1 month EURIBOR+2.0	2015	1,491	1 month EURIBOR+2.0	2014	1,684
Other loans – unsecured** (note 38(b))	2.0	2015	54,799	–	–	–
			517,197			259,986
Non-current						
Finance lease payables (note 30)	3.0 – 4.56	2020	20,444	3.0	2015	264
Bank loans – secured	4.45*	2017	3,728	4.45*	2017	6,314
Bank loans – secured	1 month EURIBOR+2.0	2017	23,858	1 month EURIBOR+2.0	2017	28,624
Other loans – unsecured***	3 month EURIBOR+3.0	2017	3,288	3 month EURIBOR+3.0	2017	1,650
Other loans – unsecured***	6.0	2018	546	–	–	–
			51,864			36,852
			569,061			296,838

* Included the effects of related interest rate swaps as further detailed in note 26 to the financial statement

** Loans from Dutch Dairy Investments B.V. ("DDI")

*** Loans from non-controlling shareholders of subsidiaries

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

	Group	
	2014	2013
	RMB'000	RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**458,127**	259,559
In the second year	**3,355**	3,788
In the third to fifth years, inclusive	**24,231**	31,150
	485,713	294,497
Other borrowings repayable:		
Within one year or on demand	**59,070**	427
In the second year	**4,524**	264
In the third to fifth years, inclusive	**16,571**	1,650
After five years	**3,183**	–
	83,348	2,341
	569,061	296,838

Notes:

(a) The Group's bank overdraft facilities that were attributed to the Ausnutria Hyproca Group amounting to EUR27,000,000 (equivalent to approximately RMB201,301,000) (2013: EUR21,000,000, equivalent to approximately RMB176,797,000), of which EUR25,125,000 (equivalent to approximately RMB187,325,000) (2013: EUR20,380,000, equivalent to approximately RMB171,581,000) had been utilised as at 31 December 2014.

(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 EUR14,766,000 (equivalent to approximately RMB110,089,000) (2013: EUR8,484,000 (equivalent to approximately RMB71,426,000));

(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 EUR28,391,000 (equivalent to approximately RMB211,672,000) (2013: EUR22,085,000 (equivalent to approximately RMB185,934,000));

27. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (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 EUR40,879,000 (equivalent to approximately RMB304,777,000) (2013: EUR24,142,000 (equivalent to approximately RMB203,249,000));

(iv) pledges of the Ausnutria Hyproca Group's trade receivables, which had an aggregate carrying value at the end of the reporting period of EUR14,786,000 (equivalent to approximately RMB110,239,000) (2013: EUR13,260,000 (equivalent to approximately RMB111,635,000)); and

(v) pledges of certain of the Ausnutria Group's time deposits amounting to RMB216,900,000 (2013: RMB213,000,000).

(c) Except for two bank loans of a total of HK$150,000,000 (equivalent to approximately RMB118,335,000) (2013: Nil) which are denominated in Hong Kong dollars, all borrowings are denominated in Euro.

28. DEFINED BENEFIT PLAN

Hyproca Dairy operates an unfunded defined benefit plan for all its qualifying employees. Under the plan, the employees are entitled to retirement benefits at rates varying from 0% to 70% of their final salaries on attainment of a retirement age of 67 (2013: age of 65).

The employees who participate in this defined benefit plan will move to another pension plan which will be treated as defined contribution plan as from 1 January 2015. All rights from previous years will remain 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 at 31 December 2014 by the appraiser, using the projected unit credit actuarial valuation method.

28. DEFINED BENEFIT PLAN (continued)

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

	2014	2013
Discount rate (%)	1.90	3.00
Expected rate of future pension cost increases (%)	0.00	1.50
Expected rate of salary increases (%)	2.50	2.50

The actuarial valuation showed that the market value of plan assets was RMB30,016,000 (2013: RMB19,912,000) and that the actuarial value of these assets represented 65.6% (2013: 51.9%) of the benefits that had accrued to qualifying employees. The deficiency of RMB15,709,000 (2013: RMB18,454,000) 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
2014				
Discount rate	0.25	(3,124)	0.25	2,900

	Increase in rate %	Increase/ (decrease) in defined benefit obligations RMB'000	Decrease in rate %	Increase/ (decrease) in defined benefit obligations RMB'000
2013				
Discount rate	0.5	(4,024)	0.5	4,715
Future salary increase	0.5	943	0.5	(884)
Future pension cost increase	0.5	(497)	0.5	547

The sensitivity 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.

28. DEFINED BENEFIT PLAN (continued)

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

	2014 RMB'000	2013 RMB'000
Current service cost	(2,820)	1,615
Interest cost	610	708
Net benefit expenses	(2,210)	2,323
Recognised in cost of sales	(2,210)	1,376
Recognised in administrative expenses	–	947
	(2,210)	2,323

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

	2014 RMB'000	2013 RMB'000
At 1 January	38,366	34,751
Current service cost	(2,820)	1,615
Interest cost	16,242	2,175
Benefit paid	(618)	(667)
Exchange differences on a foreign plan	(5,445)	492
At 31 December	45,725	38,366

28. DEFINED BENEFIT PLAN (continued)

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

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)

2013

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

The fair value of the total plan assets at 31 December 2014 was RMB30,016,000 (2013: RMB19,912,000).

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

	2014 RMB'000	2013 RMB'000
Within the next 12 months	596	1,583
Between 2 and 5 years	2,058	6,903
Between 5 and 10 years	5,040	1,726
Total expected contributions	7,694	10,212

The average duration of the defined benefit obligations at the end of the reporting period was 25.3 (2013: 22.8) years.

29. DEFERRED TAX

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

Deferred tax liabilities

Group

	2014				
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustment arising from acquisition of subsidiaries RMB'000	Milk collection rights RMB'000	Withholding taxes RMB'000	Total RMB'000
31 December 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 (note 33)	–	–	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

Group

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

29. DEFERRED TAX (continued)

Deferred tax assets

Group

	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

Group

	2013						
	Defined benefit plan RMB'000	Losses available for offsetting against future taxable income RMB'000	Provision against inventories RMB'000	Deductible temporary differences RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
31 December 2013							
At 1 January 2013	4,180	8,966	26	3,381	7,564	1,168	25,285
Deferred tax credited/(charged) to profit or loss during the year (note 10)	152	(1,830)	–	2,859	4,196	(966)	4,411
Deferred tax charged to equity during the year	42	–	–	–	–	–	42
Exchange difference	55	52	–	–	–	(7)	100
Gross deferred tax assets at 31 December 2013	4,429	7,188	26	6,240	11,760	195	29,838

29. DEFERRED TAX (continued)

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

The Group has tax losses arising in Hong Kong of RMB6,160,000 (2013: RMB4,807,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The Group is therefore liable to withholding taxes on dividends distributed by the subsidiary established in Mainland China in respect of earnings generated from January 2008. The applicable rate for the Group is 10% (2013: 10%).

As at 31 December 2014, the Group has not recognised deferred tax liabilities of RMB34,400,000 (2013: RMB37,464,000) in respect of temporary differences relating to the unremitted earnings of subsidiaries, amounting to RMB343,966,000 (2013: RMB374,635,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it is probable that these profits will not be distributed in the foreseeable future.

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

30. FINANCE LEASE PAYABLES

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

At 31 December 2014, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments 2014 RMB'000	Minimum lease payments 2013 RMB'000	Present value of minimum lease payments 2014 RMB'000	Present value of minimum lease payments 2013 RMB'000
Amounts payable:				
Within one year	5,195	460	4,271	427
In the second year	4,957	269	4,524	264
In the third to fifth years, inclusive	13,957	–	12,737	–
After five years	3,488	–	3,183	–
Total minimum finance lease payments	27,597	729	24,715	691
Future finance charges	(2,882)	(38)		
Total net finance lease payables	24,715	691		
Portion classified as current liabilities (note 27)	(4,271)	(427)		
Non-current portion (note 27)	20,444	264		

31. SHARE CAPITAL

Shares

	2014 HK$'000	2013 HK$'000
Authorised:		
1,500,000,000 (2013: 1,500,000,000) ordinary shares of HK$0.10 each	150,000	150,000

	2014		2013	
	HK$'000	RMB'000 equivalent	HK$'000	RMB'000 equivalent
Issued and fully paid:				
986,843,000 (2013: 986,843,000) ordinary shares	98,684	86,866	98,684	86,866

During the year, there was no movement in share capital (2013: Nil).

32. RESERVES

(a) Group

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 69 to 70 of the financial statements.

(i) Capital reserve

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

(ii) Statutory surplus reserve

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

32. RESERVES (continued)

(b) Company

	Share premium RMB'000	Capital reserve* RMB'000	Accumulated losses RMB'000	Exchange fluctuation reserve RMB'000	Total RMB'000
At 1 January 2013	533,856	171,320	(25,403)	(55,283)	624,490
Total comprehensive loss for the year	–	–	(17,459)	(16,108)	(33,567)
Final 2013 dividend declared and paid (note 11)	(77,589)	–	–	–	(77,589)
At 31 December 2013 and 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	456,267	171,320	(58,290)	(69,874)	499,423

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

33. BUSINESS COMBINATION

During 2014, Hyproca Goat Milk B.V. ("HGM"), a subsidiary within the Ausnutria Hyproca Group, acquired 100% equity interest in Sanimel from independent third parties (the "Sanimel Acquisition"). Sanimel is engaged in the collection and trading of goat milk. The Sanimel Acquisition was made as part of the Ausnutria Hyproca Group's strategy to expand its market share on the production and sale of goat milk based dairy products. The consideration for the Sanimel Acquisition was settled by the issuance of new shares of HGM to the two former shareholders of Sanimel. Upon completion of the Sanimel Acquisition, the interest of Ausnutria Hyproca Group in HGM was diluted from 100% to 56%.

33. BUSINESS COMBINATION (continued)

The fair values of the identifiable assets and liabilities of Sanimel as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** RMB'000
Other intangible assets	17	16,366
Trade and bills receivables		3,401
Deferred tax liabilities	29	(3,928)
Tax payable		(14)
Other liabilities		(1,171)
Total identifiable net assets at fair value		14,654
Satisfied by fair values of shares of HGM		14,654

The fair values of the trade receivables as at the date of acquisition amounted to RMB3,401,000. None of the receivables is expected to be uncollectible.

The transaction costs incurred in respect of the Sanimel Acquisition is considered to be insignificant.

34. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities (2013: Nil).

35. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, which are secured by the assets of the Group, are included in notes 14, 20, 21, 23 and 27, respectively, to the financial statements.

36. OPERATING LEASE ARRANGEMENTS

As lessee

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

	Group	
	2014	2013
	RMB'000	RMB'000
Within one year	3,377	2,390
In the second to fifth years, inclusive	4,487	4,254
After five years	118	–
	7,982	6,644

As at the end of the reporting period, the Company did not have future minimum lease payments under non-cancellable operating leases (2013: Nil).

37. COMMITMENTS

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

	Group	
	2014	2013
	RMB'000	RMB'000
Contracted, but not provided for:		
Plant and machineries	2,315	23,331
Buildings	37,636	–
	39,951	23,331

At the end of the reporting period, the Company did not have any significant commitments (2013: Nil).

38. RELATED PARTY TRANSACTIONS

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

		Group	
	Notes	2014 RMB'000	2013 RMB'000
Purchases of products from the associates	(i)	122,800	–
Sales of products to the associates	(i)	18,086	–
Management fees received from the associates	(ii)	910	–
Interest expense to DDI	(b)(i)	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 in the associates.

(b) Outstanding balances with related parties:

(i) As detailed in note 27, the Ausnutria Hyproca Group had two shareholders' loans due to DDI, the 49% non-controlling shareholder of Ausnutria Hyproca, of a total of EUR7,350,000 (equivalent to RMB54,799,000) (2013: Nil) as at the end of the reporting period. The balances are unsecured, bear interest at 2.0% per annum and (subject to certain conditions details of which are set out in the announcements of the Company dated 7 June 2013, 5 November 2013 and 23 September 2014) repayable in 2015. During the year, interest of approximately RMB278,000 (2013: Nil) was paid to DDI.

(ii) Details of the trade balances with the associates as at the end of the reporting period are disclosed in notes 21 and 24 to the financial statements.

38. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

	2014 RMB'000	2013 RMB'000
Salaries, allowances and benefits in kind	17,427	15,530
Retirement benefit contributions	1,294	1,313
Total compensation paid to key management personnel	18,721	16,843

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

39. FINANCIAL INSTRUMENTS BY CATEGORY

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

2014

Financial assets

	Group 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

39. 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

2013

Financial assets

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

39. 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	–	167,951	167,951
Financial liabilities included in other payables and accruals	–	61,457	61,457
Derivative financial instruments	716	–	716
Interest-bearing bank loans and other borrowings	–	296,838	296,838
	716	526,246	526,962

2014

Financial assets

	Company
	Loans and receivables RMB'000
Due from subsidiaries	**442,365**
Financial assets included in prepayments, deposits and other receivables	**260**
Cash and cash equivalents	**3,926**
	446,551

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Due to subsidiaries	31,852
Financial liabilities included in other payables and accruals	1,406
	33,258

2013

Financial assets

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

Financial liabilities

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

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, time deposits, the current portion of pledged deposits, trade and bill receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, due to associates, and amounts due from/to subsidiaries approximate to their carrying amounts largely due to the short term maturities of these instruments. The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Group

	Carrying amount		Fair value	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial liabilities				
Derivative financial instruments	**404**	716	**404**	716
Interest-bearing bank loans and other borrowings	**569,061**	296,838	**566,627**	294,234
	569,465	297,554	**567,031**	294,950

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 2014 was assessed to be insignificant.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with ABN-AMRO Bank N.V. Derivative financial instruments, including interest rate swaps 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.

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

As at 31 December 2014, the marked to market value of the derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

Fair value hierarchy

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

Liabilities measured at fair value:

As at 31 December 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

As at 31 December 2013

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	716	–	716

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 (2013: Nil).

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank loans, finance leases and other borrowings, amounts due from/to related parties, and cash and 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) and the Group's equity.

Group

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000
2014		
EUR	**100**	**(5,328)**
EUR	**(100)**	**5,328**
HK$	**100**	**(2,480)**
HK$	**(100)**	**2,480**
2013		
EUR	100	(6,131)
EUR	(100)	6,131

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures mainly arise from sales or purchases by the Group's operating units in the Netherlands 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 21 to the financial statements.

41. 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:

Group

	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	–	–	516,965	32,460	–	549,425
Total	57,089	191,944	522,734	51,374	3,488	826,629

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Group

	2013					
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	–	161,343	6,599	9	–	167,951
Finance lease payables	–	–	460	269	–	729
Financial liabilities included in other payables and accruals	28,640	32,817	–	–	–	61,457
Derivative financial instruments	–	716	–	–	–	716
Interest-bearing bank loans and other borrowings	–	–	269,731	40,095	–	309,826
Total	28,640	194,876	276,790	40,373	–	540,679

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

Company

	2014		
	On demand RMB'000	**Less than 3 months RMB'000**	**Total RMB'000**
Due to subsidiaries	**31,852**	**–**	**31,852**
Financial liabilities included in other payables and accruals	**–**	**1,406**	**1,406**
Total	**31,852**	**1,406**	**33,258**

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

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

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 2014 and 31 December 2013.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total 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 ratio as at the end of the reporting period is as follows:

	2014 RMB'000	2013 RMB'000
Interest-bearing bank loans and other borrowings	569,061	296,838
Less: Pledged deposits	(216,900)	(213,000)
Time deposits	(465,100)	(496,295)
Cash and cash equivalents	(278,277)	(161,161)
Net debt	(391,216)	(573,618)
Total assets	2,433,267	2,002,701
Gearing ratio	N/A	N/A

42. EVENT AFTER THE REPORTING PERIOD

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

On 12 January 2015, the Company, Ausnutria (Dutch) and DDI entered into a share purchase agreement (the "Share Purchase Agreement") pursuant to which DDI agreed to sell and Ausnutria (Dutch) agreed to purchase the remaining 49% equity interests in Ausnutria Hyproca from DDI by (i) the issuance of 200,000,000 new shares of the Company, representing approximately 16.85% of the enlarged issued share capital of the Company; and (ii) the cash consideration of HK$20,125,000. Upon completion of the Share Purchase Agreement, Ausnutria Hyproca will become an indirect wholly-owned subsidiary of the Company.

Further details regarding the Share Purchase Agreement are set out in the announcement of the Company dated 12 January 2015.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2015.

Five Year Financial Summary

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

	Year ended 31 December				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	1,966,047	1,687,781	1,350,996	629,214	513,890
Cost of sales	(1,398,842)	(1,216,026)	(1,024,803)	(409,742)	(250,710)
Gross profit	567,205	471,755	326,193	219,472	263,180
Other income and gains	29,325	25,884	22,222	25,976	21,520
Selling and distribution expenses	(336,000)	(227,757)	(156,355)	(127,318)	(174,449)
Administrative expenses	(105,285)	(84,742)	(74,533)	(44,446)	(21,584)
Other expenses	(11,621)	(20,939)	(27,807)	(19,493)	(20,367)
Finance costs	(10,310)	(6,406)	(4,315)	(1,436)	(1,369)
Share of profits/(losses) of associates	3,959	–	–	5,006	(104)
Gain on remeasurement of interests upon acquisition	–	–	–	14,126	–
PROFIT BEFORE TAX	137,273	157,795	85,405	71,887	66,827
Income tax expense	(20,552)	(30,930)	(17,388)	(21,453)	(6,877)
PROFIT FOR THE YEAR	116,721	126,865	68,017	50,434	59,950
Attributable to:					
Owners of the parent	90,219	120,705	66,490	44,275	59,950
Non-controlling interests	26,502	6,160	1,527	6,159	–
	116,721	126,865	68,017	50,434	59,950

Five Year Financial Summary

	As at 31 December				
	2014	2013	2012	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
Total assets	2,433,267	2,002,701	1,588,363	1,537,490	1,203,638
Total liabilities	(1,218,339)	(808,235)	(524,536)	(526,863)	(158,070)
Net assets	1,214,928	1,194,466	1,063,827	1,010,627	1,045,568
Non-controlling interests	107,168	(84,656)	(76,295)	(83,385)	–
	1,107,760	1,109,810	987,532	927,242	1,045,568