澳优·海普诺凯
Ausnutria

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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1717)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2014

FINANCIAL HIGHLIGHTS

	2014	2013	*% of*
	RMB'M	*RMB'M*	*Change*
Revenue	**1,966.0**	1,687.8	16.5
Gross profit	**567.2**	471.8	20.2
Earnings before interest, tax, depreciation and amortisation	**196.1**	202.2	-3.0
Profit for the year (before non-controlling interests)	**116.7**	126.9	-8.0
Profit for the year (after non-controlling interests)	**90.2**	120.7	-25.3
Basic earnings per share *(RMB cents)*	**9.14**	12.23	-25.3
Net cash flows from operating activities	**85.9**	82.6	4.0
Net asset value per share *(RMB)*	**1.23**	1.21	1.7

Pursuant to the share purchase agreement dated 12 January 2015 in relation to the acquisition of the residual 49% equity interest in Ausnutria Hyproca B.V., Ausnutria Dairy Corporation Ltd (the "Company") warranted not to declare dividends or other distribution before the completion or termination of this acquisition. In view of such, the board (the "Board") of directors (the "Directors") of the Company does not recommend the payment of a final dividend for the year ended 31 December 2014 (the "Year 2014") (Year 2013: HK$0.10 per share).

The Board is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (the "Group") for the Year 2014 together with the comparative figures for the corresponding year in 2013 (the "Year 2013") as follows:

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	*8*	**(20,552)**	(30,930)
PROFIT FOR THE YEAR		**116,721**	126,865
Attributable to:			
Owners of the parent		**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 *(RMB cents)*	*9*	**9.14**	12.23

	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	**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		**483,162**	360,996
Prepaid land lease payments		**2,028**	2,085
Goodwill		**75,713**	85,495
Other intangible assets		**44,497**	33,526
Investments in associates		**30,101**	–
Deferred tax assets		**47,522**	29,838
Total non-current assets		**683,023**	511,940
CURRENT ASSETS			
Inventories	*10*	**515,559**	315,653
Trade and bills receivables	*11*	**163,562**	175,647
Prepayments, deposits and other receivables		**104,335**	120,423
Tax recoverable		**6,511**	8,582
Pledged deposits	*12*	**216,900**	213,000
Time deposits	*12*	**465,100**	496,295
Cash and cash equivalents	*12*	**278,277**	161,161
Total current assets		**1,750,244**	1,490,761
CURRENT LIABILITIES			
Trade payables	*13*	**184,215**	167,951
Other payables and accruals		**373,469**	256,553
Derivative financial instruments		**404**	716
Interest-bearing bank loans and other borrowings		**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

	2014	2013
	RMB'000	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,311,571**	1,280,011
NON-CURRENT LIABILITIES		
Interest-bearing bank loans and other borrowings	**51,864**	36,852
Defined benefit plan	**15,709**	18,454
Deferred tax liabilities	**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	**86,866**	86,866
Reserves	**1,020,894**	945,355
Proposed final dividend	**–**	77,589
	1,107,760	1,109,810
Non-controlling interests	**107,168**	84,656
Total equity	**1,214,928**	1,194,466

1. CORPORATE INFORMATION

Ausnutria Dairy Corporation Ltd 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 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. 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 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.

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.

3. 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 (2011)	*Investment Entities*
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to IAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC-Int 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 interpretation has had no significant financial effect on these financial statements.

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.

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	304,790	1,157,726	1,462,516
Reconciliation:			
Elimination of intersegment receivables			(16,568)
Corporate and other unallocated assets			987,319
Total assets			2,433,267
Segment liabilities	59,624	606,222	665,846
Reconciliation:			
Elimination of intersegment payables			(16,568)
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

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.*

Geographical information

(a) Revenue from external customers

	2014	2013
	RMB'000	*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	2013
	RMB'000	*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:

	Note	**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 an associate		**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:

	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	**40,208**	32,172
Amortisation of lease prepayments for land use rights	**57**	57
Amortisation of other intangible assets	**8,277**	5,788
Research and development costs	**15,933**	16,937
Minimum lease payments under operating leases:		
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**	–
Loss on disposal of items of other intangible assets*	**442**	–
Impairment of property, plant and equipment*	**260**	1,850
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):		
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:

	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	**(250)**	(418)
	10,310	6,406

8. 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 Dairy (China) Co., Ltd ("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.

	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	**(21,286)**	(1,918)
Total tax charge for the year	**20,552**	30,930

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

The calculation of the basic earnings per share amount is based on the profit for the 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	2013
	RMB'000	*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.

10. INVENTORIES

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

11. TRADE AND BILLS RECEIVABLES

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

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	2013
	RMB'000	*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.

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

	2014	2013
	RMB'000	*RMB'000*
Cash and bank balances	**278,277**	161,161
Time deposits	**682,000**	709,295
	960,277	870,456
Less: Pledged deposits	**(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

13. 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:

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

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.

14. BUSINESS COMBINATION

During 2014, Hyproca Goat Milk B.V. ("HGM"), a subsidiary within the Ausnutria Hyproca Group, acquired 100% equity interest in Sanimel B.V. ("Sanimel") from independent third parties (the "Sanimel Acquisition"). Sanimel is engaged in the collection and trading of cow and 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 cow and 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%.

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

	Fair value recognised on acquisition *RMB'000*
Other intangible assets	16,366
Trade and bills receivables	3,401
Deferred tax liabilities	(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.

BUSINESS REVIEW

Despite the global dairy market's continued growth, particularly in 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.; (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 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.

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. It increased 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 to temporarily suspend 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 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.

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 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, HGM, 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 cow and 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. 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.

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 of the Company (the "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 the Commonwealth of Independent States, the Middle East, the United States and Canada in 2012, 2013 and 2014, respectively. The Group will continue to launch 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 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; better understand the consumer behavior by analyzing the data collected in the IT Systems to facilitate the implementation of marketing strategies; and 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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overall performance

	2014	2013
	RMB'M	*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:

		2014	2013	Change
	Notes	***RMB'M***	*RMB'M*	*%*
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 People's Republic of China 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 to temporary suspend 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, 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 the 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

	2014	2013	**2014**	2013
			gross	*gross*
	RMB'M	*RMB'M*	***margin %***	*margin %*
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 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	2013
	RMB'M	*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 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 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	**(1.3)**	9.5	**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 1.3%, representing a decrease of 10.8% 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	2013
	RMB'M	*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 receivables of approximately RMB124.1 million (31 December 2013: approximately RMB140.5 million), bills receivable of approximately RMB39.4 million (31 December 2013: approximately RMB35.1 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	2013
	RMB'M	*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	**24.5**	28.0
– Ausnutria Hyproca Group	**99.6**	112.5
	124.1	140.5
Bills receivable	**39.4**	35.1
	163.5	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.

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	2013
	RMB'M	*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 plan 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.

MATERIAL INVESTMENTS AND ACQUISITIONS AND DISPOSALS

Save for the Sanimel Acquisition and the Farmel Investment as detailed above in this announcement, 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 and RMB is the Group's presentation currency. The Group is exposed to potential foreign exchange risk as a result of fluctuation of HK$, US$ or EURO against RMB. The Group did not enter into any arrangements for the purpose of hedging against the potential foreign exchange risks during the year under review.

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

INTEREST RATE RISK

The Ausnutria Hyproca Group has exposure to the risk of change in market interest rate in relation to its interest-bearing bank loans and other borrowings with a floating interest rate. In order to minimise the impact of the interest rate exposure, the Ausnutria Hyproca Group entered into interest rate swap contracts with bank, effective from 1 October 2007, of a notional amount of 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 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*	Utilised	Balance as at 31 December 2014
	HK$'000	*HK$'000*	*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.

SHARE OPTION SCHEME

On 19 September 2009, the Company adopted a share option scheme (the "Scheme"), whereby the Board is empowered to grant options to eligible persons, including directors, employees and advisers of the Group, to subscribe for the Shares.

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

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 announcement.

CORPORATE GOVERNANCE

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

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the 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 announcement.

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, EY 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("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 ended 31 December 2014 and up to the date of this announcement.

AUDIT COMMITTEE

The Company's audit committee comprises three independent non-executive Directors, namely, Mr. Lau Chun Fai Douglas, Mr. Qiu Weifa and Mr. Jason Wan. The audit committee has reviewed the audited consolidated financial statements of the Group for the Year 2014 including the accounting principles and practices adopted by the Group and discussed with the management of the Company on matters relating to auditing, internal controls and financial reporting.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual report of the Company for the Year 2014, which contains the detailed results and other information of the Company for the Year 2014 required pursuant to Appendix 16 to the Listing Rules, will be despatched to the Shareholders and published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.ausnutria.com.hk in due course. This announcement can also be accessed on the above websites.

By order of the Board
Ausnutria Dairy Corporation Ltd
Yan Weibin
Chairman

Changsha City, the People's Republic of China, 30 March 2015

As at the date of this announcement, the Board comprises four executive directors, namely Mr. Yan Weibin (Chairman), Mr. Lin Jung-chin, Mr. Bartle van der Meer (Chief Executive Officer) and Ms. Ng Siu Hung, and three independent non-executive directors, namely Mr. Qiu Weifa, Mr. Jason Wan and Mr. Lau Chun Fai Douglas.