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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

FINANCIAL HIGHLIGHTS

	2015	2014	Change
	RMB'M	RMB'M	%
Revenue	912.3	937.0	-2.6
Gross profit	290.1	270.3	7.3
Profit attributable to equity holders of the Company	40.5	53.5	-24.3
Net cash flows from operating activities	43.9	64.7	-32.1
Basic earnings per share (<i>RMB cents</i>)	4.10	5.42	-24.3

OPERATION HIGHLIGHTS

- Revenue of the own brands sector (mainly represented sale of paediatric milk formula in the PRC) increased to approximately RMB531.6 million, representing an increase of approximately 29.6% or approximately RMB121.4 million when compared with the 2014 Interim Period. Included in the revenue, sale of goat milk based Kabrita series products (one of the core and fastest growing brands) and cow milk-based series products increased to approximately RMB235.9 million and approximately RMB291.5 million, representing an increase of approximately 73.7% and approximately 10.1% respectively when compared with the 2014 Interim Period.
- Revenue of private label and contract manufacturing sectors decreased to approximately RMB107.8 million, representing a decrease of approximately 63.6% or approximately RMB188.7 million when compared with the 2014 Interim Period.
- Revenue of own brands and private label and contract manufacturing sectors represented 58.3% (2014 Interim Period: 43.8%) and 11.8% (2014 Interim Period: 31.6%) of total revenue for the 2015 Interim Period, respectively.
- The strategy to shift the focus on own branding development is on track for the 2015 Interim Period.
- Result was adversely affected by the lower than scheduled productivity of the factories in the Netherlands and the increase in selling and marketing expenses for long-term own brands development.

The board (the “Board”) of directors (the “Directors”) of Ausnutria Dairy Corporation Ltd (the “Company”) is pleased to announce the unaudited financial results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2015 (the “2015 Interim Period”) together with the comparative figures for the corresponding period in 2014 (the “2014 Interim Period”).

The interim financial results are unaudited but have been reviewed by the audit committee of the Company.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2015

		Six months ended 30 June	
	<i>Notes</i>	2015	2014
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	4	912,302	936,958
Cost of sales		<u>(622,212)</u>	<u>(666,693)</u>
Gross profit		290,090	270,265
Other income and gains	4	19,654	12,087
Selling and distribution expenses		(203,045)	(144,988)
Administrative expenses		(51,829)	(53,670)
Other expenses		(1,612)	(6,843)
Finance costs	5	(7,255)	(5,947)
Share of profits of associates		<u>1,971</u>	–
Profit before tax	6	47,974	70,904
Income tax expense	7	<u>(10,985)</u>	<u>(12,849)</u>
PROFIT FOR THE PERIOD		<u>36,989</u>	<u>58,055</u>
Attributable to:			
Owners of the parent		40,506	53,510
Non-controlling interests		<u>(3,517)</u>	<u>4,545</u>
		<u>36,989</u>	<u>58,055</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– basic and diluted (RMB)	9	<u>4.10 cents</u>	<u>5.42 cents</u>

	Six months ended 30 June	
	2015	2014
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	<u>36,989</u>	<u>58,055</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(22,586)</u>	<u>254</u>
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	<u>(22,586)</u>	<u>254</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>(22,586)</u>	<u>254</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>14,403</u>	<u>58,309</u>
Attributable to:		
Owners of the parent	<u>12,333</u>	<u>52,667</u>
Non-controlling interests	<u>2,070</u>	<u>5,642</u>
	<u>14,403</u>	<u>58,309</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2015

	<i>Notes</i>	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	561,964	483,162
Prepaid land lease payments		2,000	2,028
Goodwill		69,765	75,713
Other intangible assets		39,839	44,497
Investments in associates		29,858	30,101
Deferred tax assets		47,162	47,522
		<hr/>	<hr/>
Total non-current assets		750,588	683,023
CURRENT ASSETS			
Inventories	<i>11</i>	588,373	515,559
Trade and bills receivables	<i>12</i>	149,182	163,562
Prepayments, deposits and other receivables		143,425	104,335
Tax recoverable		10,616	6,511
Pledged deposits	<i>13</i>	669,728	216,900
Time deposits	<i>13</i>	100,000	465,100
Cash and cash equivalents	<i>13</i>	376,586	278,277
		<hr/>	<hr/>
Total current assets		2,037,910	1,750,244
CURRENT LIABILITIES			
Trade payables	<i>14</i>	202,820	184,215
Other payables and accruals		472,327	373,469
Derivative financial instruments		372	404
Interest-bearing bank loans and other borrowings		650,515	517,197
Tax payable		31,653	46,411
		<hr/>	<hr/>
Total current liabilities		1,357,687	1,121,696
		<hr/>	<hr/>
NET CURRENT ASSETS		680,223	628,548
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,430,811	1,311,571
		<hr/>	<hr/>

		30 June 2015	31 December 2014
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,430,811</u>	<u>1,311,571</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings		156,637	51,864
Defined benefit plan		14,475	15,709
Deferred tax liabilities		<u>27,291</u>	<u>29,070</u>
Total non-current liabilities		<u>198,403</u>	<u>96,643</u>
Net assets		<u><u>1,232,408</u></u>	<u><u>1,214,928</u></u>
EQUITY			
Equity attributable to owners of the parent			
Issued capital	<i>15</i>	86,866	86,866
Reserves		<u>1,033,227</u>	<u>1,020,894</u>
		1,120,093	1,107,760
Non-controlling interests		<u>112,315</u>	<u>107,168</u>
Total equity		<u><u>1,232,408</u></u>	<u><u>1,214,928</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2015

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 8 June 2009. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal offices of the Group are located in (i) Mainland China, at Floor 8, XinDaXin Building A, No. 168, HuangXing Middle Road, Changsha City, Hunan Province; (ii) Hong Kong, at Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central; and (iii) the Netherlands, at Burgemeester Falkenaweg 58-1 (8442LE), Heerenveen. The shares of the Company (the “Shares”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 8 October 2009.

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

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

Basis of preparation

The Interim Condensed Consolidated Financial Statements for the 2015 Interim Period have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange and with International Accounting Standard (“IAS”) 34 Interim Financial Reporting issued by the International Accounting Standards Board (“IASB”).

The Interim Condensed Consolidated Financial Statements does not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2014. The Interim Condensed Consolidated Financial Statements are presented in Renminbi (“RMB”) and all values are rounded to nearest thousand (RMB’000), except when otherwise indicated.

Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the Interim Condensed Consolidated Financial Statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2014, except for the adoption of new standards and interpretations as of 1 January 2015, noted below.

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

Amendments to <i>IAS 19</i>	<i>Defined Benefit Plans: Employee Contributions</i>
Annual Improvements <i>2010-2012 Cycle</i>	<i>Amendments to a number of IFRSs</i>
Annual Improvements <i>2011-2013 Cycle</i>	<i>Amendments to a number of IFRSs</i>

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

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments for the six months ended 30 June 2015 as follows:

- (a) the Ausnutria segment comprises the manufacturing and sale of own-branded paediatric cow milk formula products in Mainland China and Hong Kong; and
- (b) the Ausnutria Hyproca segment comprises the manufacture and sales of dairy products in the Netherlands on a subcontract basis for its customers as well as for the sales of its own-branded products in the PRC and other overseas countries.

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

Segment assets exclude cash and cash equivalents, pledged deposits, time deposits and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Total RMB'000
<u>Six months ended 30 June 2015 (unaudited)</u>			
SEGMENT REVENUE			
Sales to external customers	291,523	620,779	912,302
Intersegment sales	–	17,530	17,530
	<u>291,523</u>	<u>638,309</u>	<u>929,832</u>
Reconciliation:			
Elimination of intersegment sales			<u>(17,530)</u>
Revenue from operations			<u><u>912,302</u></u>
SEGMENT RESULTS			
Reconciliation:	41,822	4,825	46,647
Interest income			14,531
Finance costs			(7,255)
Corporate and other unallocated expenses			<u>(5,949)</u>
Profit before tax			<u><u>47,974</u></u>
OTHER SEGMENT INFORMATION			
Impairment losses recognised/(written back) in profit or loss	1,500	(1,273)	227
Share of profits of associates	–	1,971	1,971
Depreciation and amortisation	4,969	17,979	22,948
Capital expenditure*	<u>1,957</u>	<u>135,419</u>	<u>137,376</u>
<u>As at 30 June 2015 (unaudited)</u>			
SEGMENT ASSETS			
Reconciliation:	518,717	1,404,804	1,923,521
Elimination of intersegment receivables			(307,798)
Corporate and other unallocated assets			<u>1,172,775</u>
Total assets			<u><u>2,788,498</u></u>
SEGMENT LIABILITIES			
Reconciliation:	107,600	949,136	1,056,736
Elimination of intersegment payables			(307,798)
Corporate and other unallocated liabilities			<u>807,152</u>
Total liabilities			<u><u>1,556,090</u></u>

	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Total RMB'000
<u>Six months ended 30 June 2014 (unaudited)</u>			
SEGMENT REVENUE			
Sales to external customers	264,786	672,172	936,958
Intersegment sales	–	32,748	32,748
	<hr/>	<hr/>	<hr/>
	264,786	704,920	969,706
Reconciliation:			
Elimination of intersegment sales			<hr/> (32,748)
Revenue from operations			<hr/> 936,958
SEGMENT RESULTS			
	52,694	14,604	67,298
Reconciliation:			
Interest income			10,768
Finance costs			(5,947)
Corporate and other unallocated expenses			<hr/> (14,064)
Profit before tax			<hr/> 58,055
OTHER SEGMENT INFORMATION			
Depreciation and amortisation	5,046	16,941	21,987
Capital expenditure*	<hr/> 1,115	<hr/> 128,857	<hr/> 129,972
<u>As at 31 December 2014 (audited)</u>			
SEGMENT ASSETS			
	478,049	1,157,726	1,635,775
Reconciliation:			
Elimination of intersegment receivables			(189,827)
Corporate and other unallocated assets			<hr/> 987,319
Total assets			<hr/> 2,433,267
SEGMENT LIABILITIES			
	232,883	606,222	839,105
Reconciliation:			
Elimination of intersegment payables			(189,827)
Corporate and other unallocated liabilities			<hr/> 569,061
Total liabilities			<hr/> 1,218,339

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

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2015 RMB'000 (Unaudited)	2014 RMB'000 (Unaudited)
The PRC	547,732	517,266
European Union	265,328	231,087
Middle East	27,820	73,942
United States	16,069	49,479
Australia and New Zealand	6,043	13,023
Others	49,310	52,161
	<u>912,302</u>	<u>936,958</u>

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

(b) Non-current assets

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
	The PRC	77,406
The Netherlands	626,020	557,206
	<u>703,426</u>	<u>635,501</u>

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

Information about major customers

During the six months ended 30 June 2015, there was no revenue from a single external customer which accounted for 10% or more of the Group's total revenue (six months ended 30 June 2014: Nil).

4. REVENUE, OTHER INCOME AND GAINS

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

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

		Six months ended 30 June	
		2015	2014
	Note	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE			
Sale of goods		<u>912,302</u>	<u>936,958</u>
OTHER INCOME AND GAINS			
Interest income		14,531	10,768
Government grants	(i)	2,513	465
Others		<u>2,610</u>	<u>854</u>
Total		<u>19,654</u>	<u>12,087</u>

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

5. FINANCE COSTS

An analysis of finance costs is as follows:

		Six months ended 30 June	
		2015	2014
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Interest on bank loans and other borrowings		9,263	7,227
Interest on finance leases		<u>423</u>	<u>47</u>
Total interest expense on financial liabilities not at fair value through profit or loss		9,686	7,274
Less: Interest capitalised		<u>(2,431)</u>	<u>(1,327)</u>
Total		<u>7,255</u>	<u>5,947</u>

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	621,985	666,693
Write-down of inventories to net realisable value	227	–
Cost of sales	622,212	666,693
Depreciation	19,488	18,904
Amortisation of prepaid land lease payments	28	28
Amortisation of other intangible assets	3,432	3,055
Minimum lease payments under operating leases for buildings	1,659	1,416
Auditors' remuneration	2,000	1,500
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and staff welfare	134,634	112,098
Pension scheme contributions*	10,938	10,592
	145,572	122,690

* At 30 June 2015, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (31 December 2014: Nil).

7. INCOME TAX

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

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

Ausnutria Dairy (China) Co., Ltd ("Ausnutria China"), an indirect wholly-owned subsidiary of the Company, was designated as a High-tech Enterprise and was granted a preferential CIT rate of 15% for the three years ending 31 December 2015.

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current charge for the period		
The Netherlands	(3,925)	1,288
Mainland China	16,024	15,491
Deferred income tax	(1,114)	(3,930)
Total	10,985	12,849

8. INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: Nil).

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

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 986,843,000 (six months ended 30 June 2014: 986,843,000) in issue during the period.

Earnings

	Six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	<u>40,506</u>	<u>53,510</u>

Shares

	Six months ended 30 June	
	2015	2014
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<u>986,843,000</u>	<u>986,843,000</u>

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2015 and 2014 in respect of a dilution as the Company had no potentially dilutive ordinary shares in issue during those periods.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2015, the Group acquired land and buildings, machinery, office equipment, motor vehicle and construction in progress with an aggregate cost of approximately RMB135,682,000 (six months end 30 June 2014: RMB127,373,000), of which approximately RMB116,309,000 (six months end 30 June 2014: RMB47,025,000) was related to the construction of the new factory in Heerenveen, the Netherlands (the "New Factory").

At 30 June 2015, certain of the Group's land and buildings, and plant and equipment that were attributed to Ausnutria Hyproca B.V. and its subsidiaries (the "Ausnutria Hyproca Group") and located in the Netherlands with net carrying amounts of EUR15,013,000, equivalent to approximately RMB103,138,000 (31 December 2014: EUR14,766,000, equivalent to approximately RMB110,089,000) and EUR38,270,000, equivalent to approximately RMB262,911,000 (31 December 2014: EUR28,391,000, equivalent to approximately RMB211,672,000), respectively, were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group.

11. INVENTORIES

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Raw materials	131,935	184,909
Finished goods	452,292	326,969
Others	4,146	3,681
Total	588,373	515,559

At 30 June 2015, certain of the Group's inventories that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR65,663,000, equivalent to approximately RMB451,098,000 (31 December 2014: EUR40,879,000, equivalent to approximately RMB304,777,000) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group.

12. TRADE AND BILLS RECEIVABLE

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Trade receivables	108,179	124,115
Bills receivable	41,003	39,447
Total	149,182	163,562

The Group normally allows a credit period from one month to 12 months (31 December 2014: one month to 12 months) to certain customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Included in the Group's trade receivables, amounts due from associates of EUR1,082,000, equivalent to approximately RMB7,433,000 (31 December 2014: EUR602,000, equivalent to approximately RMB4,491,000) are repayable on a 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:

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Within 3 months	102,555	106,602
3 to 6 months	3,071	11,396
6 months to 1 year	2,240	3,146
Over 1 year	313	2,971
Total	108,179	124,115

There was no provision for impairment as of 30 June 2015 (31 December 2014: Nil). The carrying amounts of the trade and bills receivables approximate to their fair values.

At 30 June 2015, certain of the Group's trade receivables (including the intercompany trade receivables from Ausnutria China) that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR19,033,000, equivalent to approximately RMB130,755,000 (31 December 2014: EUR14,786,000, equivalent to approximately RMB110,239,000) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group.

13. CASH AND CASH EQUIVALENTS

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Cash and bank balances	286,586	278,277
Time deposits	<u>859,728</u>	<u>682,000</u>
	1,146,314	960,277
<i>Less:</i> Pledged deposits	(669,728)	(216,900)
Non-pledged time deposits with maturity of between 3 months to 12 months	<u>(100,000)</u>	<u>(465,100)</u>
Cash and cash equivalents	<u>376,586</u>	<u>278,277</u>

At the end of the reporting period, the Group's cash and bank balances denominated in RMB amounted to RMB209,415,000 (31 December 2014: RMB260,679,000). In addition, all the Group's time deposits were denominated in RMB. The RMB is not freely convertible in the international market. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to convert RMB into other currencies through banks to conduct foreign exchange business.

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

14. TRADE PAYABLES

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

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Within 12 months	202,664	184,107
Over 12 months	<u>156</u>	<u>108</u>
Total	<u>202,820</u>	<u>184,215</u>

Included in the Group's trade payables, amounts due to associates of EUR3,178,000, equivalent to approximately RMB21,833,000 (31 December 2014: EUR4,215,000, equivalent to approximately RMB31,425,000) are repayable within 45 days.

Trade payables are interest-free and are normally settled within 12 months (31 December 2014: 12 months).

15. SHARE CAPITAL

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
<i>Authorised:</i>		
1,500,000,000 (31 December 2014: 1,500,000,000) ordinary shares of HK\$0.10 each	150,000	150,000
	30 June 2015 (Unaudited)	31 December 2014 (Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>RMB'000 equivalent</i>	<i>RMB'000 equivalent</i>
<i>Issued and fully paid:</i>		
986,843,000 (31 December 2014: 986,843,000) ordinary shares of HK\$0.10 each	98,684	98,684
	86,866	86,866

During the period, there was no movement in share capital (six months ended 30 June 2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Completion of Mandatory General Cash Offer and Change of Substantial Shareholders

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

The mandatory Offer was closed on 6 August 2015. Total Shares accepted in response to the Offer made by the Joint Offerors amounted to 122,677,075 Shares, representing approximately 12.4% of the issued share capital of the Company. As at the closing date of the Offer, total acceptance Shares together with the Shares already held by the Joint Offerors and parties acting in concert with any of them, amounted to 597,486,125 Shares, representing approximately 60.5% of the issued share capital of the Company. Details regarding the result of the Offer are set out in the joint announcement issued by the Joint Offerors and the Company dated 6 August 2015.

Center Lab was founded in 1959 and is a company incorporated under the laws of Taiwan with limited liability. The shares of Center Lab have been listed on the GreTai Securities Market in Taiwan (stock code: 4123) since 2003. Center Lab is an industrial biotechnological company which specialises in manufacturing liquid oral drugs formulations for infants, children, the elderly and special care patients. Mr. Lin Jung-Chin (“Mr. Lin”), who was appointed as an executive Director on 12 December 2014 and is responsible for the strategic development of the Group, is the chairman and the largest shareholder of Center Lab through his holdings of approximately 15.0% equity interests (direct and indirect) in Center Lab. The remaining approximately 85.0% of issued shares of Center Lab are held as to approximately 4.1% by the directors of Center Lab, approximately 12.5% by a substantial shareholder of Center Lab and approximately 68.4% by public shareholders. As at the date of this announcement, Center Lab was interested in approximately 30.8% equity interest in the Company and is the single largest Shareholder.

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

The Board believes that the Group’s future development could benefit from the support of Center Lab as Center Lab will leverage on its management expertise with a view to creating long-term value for the Shareholders.

INDUSTRY OVERVIEW

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

The Company believes that the dairy industry in the PRC, which is the Group's principal market, will continue to be challenging in the year ahead. However, given the infrastructure that the Company has established in the past, including but not limited to, the solid wholly-owned overseas production base established in the Netherlands and the extensive distribution network in the PRC and overseas, the Group will benefit from the industry reforms in the long-run.

BUSINESS REVIEW

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

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

The Board believes that the completion of the Ausnutria Hyproca Acquisition will facilitate the further consolidation of the business currently conducted by the Ausnutria Hyproca Group into the Group.

Despite the global dairy market's continued growth, particularly in the PRC, the market sentiment of the dairy industry continues to be complicated and challenging which was caused by the impact of New Policies on the industry as well the increase in market competition.

For the 2015 Interim Period, the Group recorded revenue of approximately RMB912.3 million, representing a decrease of approximately RMB24.7 million, or approximately 2.6%, when compared with the 2014 Interim Period. The decrease in revenue was partly attributed to the change in the strategy of the Group by shifting its focus from private label and contract manufacturing businesses with comparatively lower profit margins to the higher profit margin own branded business. Revenue of the own branded business (which includes all the brands owned by Ausnutria China and Kabrita and Neolac owned by the Ausnutria Hyproca Group) has increased to approximately RMB531.6 million for the 2015 Interim Period, representing an increase of approximately RMB121.4 million, or approximately 29.6%, when compared with the 2014 Interim Period. The increase was offset by the decrease in revenue of the private label business to approximately RMB97.7 million, representing a decrease of approximately RMB185.5 million, or approximately 65.5% when compared with the 2014 Interim Period. The decrease in revenue was also attributed to (i) the lower than expected productivity and production yield of the Ausnutria Hyproca Group following the completion of the upgrading of its production facilities, including but not limited to two of its milk powder production towers, in late 2014 which has caused some temporary delay in the delivery of the orders to the customers of the Ausnutria Hyproca Group for the 2015 Interim Period; and (ii) the intense market competition of the dairy products in the PRC. Despite the productivity and production yield of the Ausnutria Hyproca Group are still not at its expected level during the commissioning phase, the performance of the upgraded facilities has been gradually improving since the second quarter of 2015.

The Group's gross profit was approximately RMB290.1 million for the 2015 Interim Period, representing an increase of approximately RMB19.8 million or approximately 7.3% over approximately RMB270.3 million for the 2014 Interim Period. The Group's gross profit margin for the 2015 Interim Period was approximately 31.8%, representing an increase of approximately 3.0 percentage points, when compared with that for the 2014 Interim Period, being approximately 28.8%. The increase in gross profit and gross profit margin was mainly a result of the continuous increase in proportion of sale of own branded products, mainly the sale of Kabrita series products in the PRC, which has a comparatively higher gross profit margin when compared with other product lines of the Group.

The Group's profit attributable to ordinary equity holders of the parent decreased by approximately 24.3% to approximately RMB40.5 million and the basic earnings per Share was approximately RMB4.10 cents, representing a decrease of approximately RMB1.32 cents over the 2014 Interim Period. The decrease was a result of the increase in selling and marketing expenses to cope with the increasing market competition as well as to cater for the long-term strategy of the Group to launch and promote Kabrita series products into other overseas markets.

For further details regarding the financial performance of the Group, please refer to the "Financial Review" section of this announcement.

OUTLOOK

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

Continue upward integration and product diversification

The acquisition of the residual 49.0% equity interest in Ausnutria Hyproca was approved by the Shareholders at the extraordinary general meeting of the Company on 20 July 2015. As at 30 June 2015, the Ausnutria Hyproca Group has three factories and one factory under construction which are all located in the Netherlands with ample quality milk supply and has employed over 440 employees overseas. The Group will continue to make use of its internal resources and global network to explore potential investment opportunities in upstream dairy related assets and operations to broaden the Group's milk powder supply sources and related dairy products to meet the global demand, in particular the PRC, of quality dairy products. This will also diversify the Group's risks and ensure a stable and quality supply of dairy products to support its business growth.

Increase production capacity in the Netherlands

In 2014, the Group has approved the construction of the New Factory. Total investment cost (including the cost of a plot of land with approximately 140,000 square metres and all the production facilities) is estimated to be approximately EUR83.0 million (equivalent to approximately RMB618.8 million). The construction of the New Factory will be financed by banking facilities granted to the Ausnutria Hyproca Group as well as to the Group's internal working capital, and the New Factory is expected to commence operation in the second half of 2016. The New Factory has a maximum blending and packaging capacity of approximately 90,000 tons per annum.

Build a leading position in the world for goat milk-based paediatric 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 Kabrita series products in the PRC in 2011. In the same year and 2012, the Group entered into agreements with the medical school of Peking University for conducting a series of clinical trials of Kabrita series products. The trials' results revealed that goat milk-based powder is a good alternative to cow milk-based powder in a number of different aspects, including nutrition, digestion and development of one's immune system.

In 2013, the Group approved clinical trials to apply for approval by the Food and Drug Administration (the "FDA") for the sale of Kabrita series products in the United States. The conducting of the clinical trials and the application of the import approval to the United States of Kabrita series products has been carried out as scheduled.

The Group has also established subsidiaries with independent third parties for the sale of Kabrita series products in Russia and the Commonwealth of Independent States (the "CIS"), the Middle East, the United States and Canada. The Group will continue to launch Kabrita series products in other major countries and aims to become a global market leader in goat milk-based paediatric nutrition products. This ambition will be leveraged by the studies and clinical trial results conducted by (i) the medical school of Peking University; (ii) clinical studies in Europe; and (iii) the in-house research and development ("R&D") team in the Netherlands and in North America during the course of applying for FDA approval.

For the 2015 Interim Period, sale of Kabrita series products amounted to approximately RMB235.9 million, representing an increase of 73.7% when compared with the 2014 Interim Period.

Enhance the research and development capability

The Board believes that the Group's ability to continue to launch new and innovative products is one of the Group's critical success factors.

In 2012, the Group entered into an agreement with the medical school of Peking University to form a 10-year strategic cooperation for the joint R&D of paediatric milk formula in the PRC. In 2014, the Group further cooperates with the medical school of Peking 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 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 Group will continue to invest in R&D by strengthening its in-house R&D capability as well as to form strategic cooperation with other industry participants and research centres.

Continue to invest in information technology

The Group has continued to place strong emphasise 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.

Through the IT Systems, the Board believes that the Group will be able to (i) establish in the long run a closer relationship with its customers and distributors by means of implementing the membership program and reward system for the customers; (ii) better understand the consumer behaviour by analysing the data collected in the IT Systems to facilitate the implementation of marketing strategies; and (iii) exercise effective inventory controls over the order status and inventory level of its sales channels by analysing 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 rapidly changing e-commerce sector.

FINANCIAL REVIEW

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

Revenue

	Six months ended 30 June		Change %
	2015 <i>RMB'M</i> (Unaudited)	2014 <i>RMB'M</i> (Unaudited)	
REVENUE			
Own brands*	531.6	410.2	29.6
Milk powder	140.2	72.5	93.4
Private labels	97.7	283.2	-65.5
Contract manufacturing	10.1	13.3	-24.1
Butter	55.0	72.4	-24.0
Others	77.7	85.4	-9.0
	<u>912.3</u>	<u>937.0</u>	-2.6
Represented by:			
(A) Ausnutria China	291.5	264.8	10.1
(B) Ausnutria Hyproca Group	638.3	704.9	-9.4
	<u>929.8</u>	<u>969.7</u>	-4.1
Less: Intersegment sales	<u>(17.5)</u>	<u>(32.7)</u>	-46.5
The Group	<u>912.3</u>	<u>937.0</u>	-2.6

* After elimination of intersegment sales

For the 2015 Interim Period, the Group recorded revenue of approximately RMB912.3 million, representing a decrease of approximately RMB24.7 million, or approximately 2.6%, from RMB937.0 million for the 2014 Interim Period.

(A) 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 paediatric formula under different brands in recent years in order to better penetrate into 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:

	Six months ended 30 June		Change %
	2015 RMB'M (Unaudited)	2014 RMB'M (Unaudited)	
Allnutria division	143.9	136.3	5.6
Puredo division	68.4	55.2	23.9
1897 division	62.2	65.5	-5.0
Others	17.0	7.8	117.9
Total	<u>291.5</u>	<u>264.8</u>	10.1

Despite the competition of the paediatric formula market in the PRC continues to be intense during the 2015 Interim Period, revenue of Ausnutria China increased by approximately 10.1% to approximately RMB291.5 million for the 2015 Interim Period. Except for the 1897 division which has recorded a decrease in revenue by 5.0% due to delay in shipment of the 1897 series products by the supplier (which is the Ausnutria Hyproca Group), revenue of all the other business units continued to grow for the 2015 Interim Period.

(B) Revenue – Ausnutria Hyproca Group

The Ausnutria Hyproca Group is principally engaged in the dairy industry from research and development, milk collection, processing, production and packaging of dairy products with production facilities and milk sources in the Netherlands and customers based in most of the major countries of the world. 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	Six months ended 30 June		Change %
		2015 RMB'M (Unaudited)	2014 RMB'M (Unaudited)	
Manufacturing for:				
Own brands	(i)	240.1	145.4	65.1
Private labels	(ii)	97.7	283.2	-65.5
Ausnutria China	(iii)	17.5	32.7	-46.5
Milk powder	(iv)	140.2	72.5	93.4
Contract Manufacturing	(v)	10.1	13.3	-24.1
Butter	(vi)	55.0	72.4	-24.0
		560.6	619.5	-9.5
Manufacturing and trading for:				
Condensed milk, cream and other dairy products	(vii)	77.7	85.4	-9.0
Total		638.3	704.9	-9.4

Notes:

- (i) Represented the sale of the Ausnutria Hyproca Group's own brands Kabrita in the PRC, Russia and CIS, United States and the Middle East countries and Neolac for cow paediatric formula in the PRC.
- (ii) Represented the sale of cow paediatric formula under the customers' own brands in the Netherlands and other overseas countries, such as the PRC, Taiwan, other European and Middle East countries.
- (iii) Represented the sale of the cow paediatric formula to Ausnutria China under brand names (such as 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.

The Group acquired the controlling interest in the Ausnutria Hyproca Group in 2011. Prior to the acquisition, the Ausnutria Hyproca Group was principally engaged in the private label and contract manufacturing businesses. Since then, the Company has implemented a number of strategies on the Ausnutria Hyproca Group, including but not limited to (i) the launch of own brand paediatric formula (namely Kabrita for goat milk and Neolac for cow milk); (ii) invest in a number of capital expenditure plans to improve both the quality and production capacities of the Ausnutria Hyproca Group; (iii) formulating the future marketing strategy by focusing and allocating more resources on the development of the higher return own brands business instead of the comparatively lower return traditional private label and contract manufacturing businesses; and (iv) integrating the business and operations of the Ausnutria Hyproca Group into the Group.

For the 2015 Interim Period, revenue of the own brands sector (which mainly represented the sale of Kabrita series products in the PRC) amounted to approximately RMB240.1 million, representing an increase of approximately 65.1%, when compared with the 2014 Interim Period. The increase was offset by the decrease in sale of the private labels and the contract manufacturing businesses for the reason as set out in the above. The decrease in revenue of the Ausnutria Hyproca Group was also partly attributable to the lower than scheduled production level as well as the production yield since the completion of the upgrading of the production facilities in the Netherlands in late 2014. The Group is still in the process of streamlining the production process of the upgraded facilities and with an aim to reach its target level by end of this year. Revenue of the Ausnutria Hyproca Group decreased by approximately 9.4% to approximately RMB638.3 million for the 2015 Interim Period.

Gross profit and gross margin

	Six months ended 30 June		Six months ended 30 June	
	2015 <i>RMB'M</i> (Unaudited)	2014 <i>RMB'M</i> (Unaudited)	2015 % (Unaudited)	2014 % (Unaudited)
Ausnutria China	149.7	146.8	51.4	55.4
Ausnutria Hyproca Group	140.4	123.5	22.6	18.4
The Group	<u>290.1</u>	<u>270.3</u>	<u>31.8</u>	<u>28.8</u>

The Group's gross profit for the 2015 Interim Period was approximately RMB290.1 million, representing an increase of approximately RMB19.8 million, or approximately 7.3%, when compared with the 2014 Interim Period. The increase in the gross profit margin of the Group from 28.8% for the 2014 Interim Period to 31.8% for the 2015 Interim Period was mainly attributable to the proportionate increase in the sales of the higher profit margin own brands business as compared with the other business sectors.

Other income and gains

Other income and gains mainly represented interest income from the Group's deposits with banks of approximately RMB14.5 million (2014 Interim Period: approximately RMB10.8 million), grants from the government in the PRC of approximately RMB2.5 million (2014 Interim Period: approximately RMB0.5 million) and proceeds from the sale of scraps.

Selling and distribution expenses

	Six months ended 30 June	
	2015	2014
	<i>RMB'M</i>	<i>RMB'M</i>
	(Unaudited)	(Unaudited)
Ausnutria China	88.9	70.0
Ausnutria Hyproca Group	114.1	75.0
	<hr/>	<hr/>
The Group	203.0	145.0
	<hr/> <hr/>	<hr/> <hr/>

Selling and distribution expenses mainly comprised advertising and promotion expenses, salaries and travelling costs of the sales and marketing staff and delivery costs. Selling and distribution expenses represented approximately 22.3% and 15.5% of revenue for the 2015 Interim Period and the 2014 Interim Period, respectively.

The selling and distribution expenses of Ausnutria China for the 2015 Interim Period represented approximately 30.5% (2014 Interim period: 26.4%) of Ausnutria China's revenue. The increase in selling and distribution expenses of Ausnutria China was mainly due to the expansion of the existing sales and marketing team and additional marketing and promotion costs for placing more emphasis on brand building to cope with the intense market competition in the PRC.

The selling and distribution expenses of the Ausnutria Hyproca Group represented approximately 17.9% (2014 Interim Period: approximately 10.6%) of the Ausnutria Hyproca Group's revenue (before elimination of intersegment sales) for the 2015 Interim Period. Included in the selling and distribution expenses of the Ausnutria Hyproca Group, approximately 58.7% (2014 Interim Period: approximately 56.4%) related to the sales and marketing of Kabrita in the PRC. Kabrita series products 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 paediatric milk formula in the PRC, the Ausnutria Hyproca Group continued to allocate more of its resources on the marketing and promotion of Kabrita series products in order to enhance its market awareness. With the increasing sales and marketing effort and promotion in place, the sales of Kabrita series products in the PRC was increased by 71.9% (being one of the fastest growing brands of the Group) compared with the 2014 Interim Period.

Administrative expenses

	Six months ended 30 June	
	2015	2014
	<i>RMB'M</i>	<i>RMB'M</i>
	(Unaudited)	(Unaudited)
Ausnutria China	24.6	23.3
Ausnutria Hyproca Group	27.2	30.4
	<hr/>	<hr/>
The Group	51.8	53.7
	<hr/> <hr/>	<hr/> <hr/>

Administrative expenses mainly comprised staff costs, travelling expenses, auditors' remuneration, professional fees, depreciation and R&D costs. Despite the scale of operations of the Group continue to grow, the administrative expenses remained fairly stable during the 2015 Interim Period and this was mainly attributed to the effective cost control implemented by the Group.

Other expenses

Other expenses for the 2015 Interim Period mainly comprised legal and professional fees incurred in relation to the Ausnutria Hyproca Acquisition. The balance of 2014 Interim Period mainly comprised legal and professional fees incurred in relation to the application for the resumption of the trading of the Shares which was suspended since March 2012.

Finance costs

The finance costs of the Group's for the 2015 Interim Period amounted to approximately RMB7.3 million (2014 Interim Period: approximately RMB5.9 million), representing the interest on bank and other borrowings raised principally for the financing of the working capital and capital expenditures of the Ausnutria Hyproca Group.

The increase in finance costs was in line with the increase in bank loans which were drawn down during the second half of the year 2014 and the 2015 Interim Period.

Share of profits of associates

The Ausnutria Hyproca Group holds 50% of the equity interest in Farmel Holding B.V. (the "Farmel Group"). Balance represented the share of profits of the Farmel Group for the 2015 Interim Period of approximately RMB2.0 million (2014 Interim Period: Nil). 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 its operations in the PRC and the Netherlands. Under the PRC income tax laws, enterprises are subject to the CIT at a rate of 25%. Ausnutria China was designated as a High-tech Enterprise and was granted a preferential CIT tax rate of 15% for the three years ending 31 December 2015. All other subsidiaries established in the PRC are subject to the standard CIT rate of 25%. The standard CIT rate in the Netherlands was applied at 20% for the first EUR200,000 taxable profits and 25% for the taxable profits exceeding EUR200,000.

The Group's effective tax rate for the 2015 Interim Period was 22.9%, representing an increase of approximately 4.8 percentage points when compared with the 2014 Interim Period and this was mainly due to the proportionate increase in profit contributed by the other operating subsidiary established in the PRC for the sale of Kabrita series products which are subject to the standard CIT rate of 25%.

Profit attributable to equity holders of the Company

The Group's profit attributable to equity holders of the Company for the 2015 Interim Period amounted to approximately RMB40.5 million (2014 Interim Period: approximately RMB53.5 million), representing a decrease of approximately 24.3% when compared with the 2014 Interim Period. The decrease in net profit was mainly due to the increase in the selling and distribution expenses to cope with the increase in market competition as well as the increase in marketing efforts for the promotion of the Group's own brands products, in particular, Kabrita series products as part of the Group's long-term strategy to launch Kabrita worldwide, which has partly contributed to the increase in gross profit for the 2015 Interim Period. In addition, the lower than expected productivity and production yield of the Ausnutria Hyproca Group following the completion of the upgrading of its production facilities, including but not limited to two of its milk powder production towers in the late 2014 which has caused some temporary delay in the delivery of the orders to the customers (including Ausnutria China) of the Ausnutria Hyproca Group for the 2015 Interim Period also accounted for the decrease in the operating result.

Analysis on Condensed Consolidated Statement of Financial Position

Non-current assets

As at 30 June 2015, the total non-current assets of the Group amounted to approximately RMB750.6 million (31 December 2014: approximately RMB683.0 million), mainly comprised property, plant and equipment of approximately RMB562.0 million (31 December 2014: approximately RMB483.2 million), goodwill arising from the acquisition of 51% equity interest in Ausnutria Hyproca in 2011 of approximately RMB69.8 million (31 December 2014: approximately RMB75.7 million), other intangible assets of approximately RMB39.8 million (31 December 2014: approximately RMB44.5 million), investments in associates which was made by the Ausnutria Hyproca Group in 2014 and engaged in the collection and trading of cow and goat milk of approximately RMB29.9 million (31 December 2014: RMB30.1 million) and deferred tax assets of approximately RMB47.2 million (31 December 2014: approximately RMB47.5 million).

The increase in the non-current assets of the Group as at 30 June 2015 was principally due to the increase in property, plant and equipment of the Ausnutria Hyproca Group mainly attributed to the New Factory project and after offsetting the impact on the depreciation of EURO on consolidation. For the 2015 Interim Period, the Group invested approximately EUR16.9 million (equivalent to approximately RMB116.3 million) (2014 Interim Period: EUR5.6 million) (equivalent to approximately RMB47.0 million) in the New Factory project. Other non-current assets position of the Group as at 30 June 2015 remained fairly stable when compared with that as at 31 December 2014.

Current assets

As at 30 June 2015, the total current assets of the Group amounted to approximately RMB2,037.9 million (31 December 2014: approximately RMB1,750.2 million), mainly comprised inventories of approximately RMB588.4 million (31 December 2014: approximately RMB515.6 million), trade and bills receivables of approximately RMB149.2 million (31 December 2014: approximately RMB163.6 million), pledged deposits of RMB699.7 million (31 December 2014: RMB216.9 million), time deposits with banks in the PRC of RMB100.0 million (31 December 2014: RMB465.1 million) and cash and cash equivalents of approximately RMB376.6 million (31 December 2014: approximately RMB278.3 million).

The increase in the total current assets of the Group was mainly due to (i) the increase in pledged deposits, time deposits and cash and cash equivalents by approximately RMB186.0 million and (ii) the increase in inventories by approximately RMB72.8 million as at 30 June 2015 when compared with that as at 31 December 2014.

Inventories

As at 30 June 2015, the inventories of the Group amounted to approximately RMB588.4 million (31 December 2014: RMB515.6 million).

The inventory turnover days of the Group as at 30 June 2015 was approximately 162 days (31 December 2014: approximately 108 days). The increase in both the inventories and the inventory turnover days of the Group was mainly attributed to (i) the shifting of focus to own branded product development which requires a longer lead time for products to be despatched to end customers; and (ii) the implementation of a more stringent quality control procedures during the streamlining process after the completion of the upgrading plan of the Netherlands factories for the 2015 Interim Period.

The Group is now in the process of reviewing the overall operation flow of the Group in order to improve the inventory turnover days.

Trade and bills receivables

	30 June 2015 RMB'M (Unaudited)	31 December 2014 RMB'M (Audited)
Trade receivables		
– Ausnutria China	15.4	24.6
– Ausnutria Hyproca Group	<u>92.8</u>	<u>99.6</u>
	108.2	124.2
Bills receivable	<u>41.0</u>	<u>39.4</u>
	149.2	163.6
The Group	<u>149.2</u>	<u>163.6</u>

The trade receivable turnover days of Ausnutria China and the Ausnutria Hyproca Group as at 30 June 2015 was approximately 13 days (31 December 2014: approximately 17 days) and approximately 28 days (31 December 2014: approximately 28 days), respectively, which remained fairly stable and were in line with the credit periods granted by the Group to its customers.

Pledged deposits

The Company has approved a number of production expansion plans and the New Factory project in 2013 and 2014. In view that most of the funding of the Group is denominated in RMB and placed with banks in the PRC, the Group has pledged its RMB deposits in the PRC to obtain the bank facilities in Europe and Hong Kong for the financing of the expansion plans and the New Factory project.

The increase in pledged deposits was in line with the increase in bank loans.

Time deposits and cash and cash equivalents

As at 30 June 2015, the Group's cash and bank balances and time deposits amounted to approximately RMB476.6 million (31 December 2014: approximately RMB743.4 million). The decrease was mainly due to the increase in deposits pledged with banks to obtain the bank facilities in Europe and Hong Kong for the financing of the expansion plans and the construction of New Factory as set out in the above.

Current liabilities

As at 30 June 2015, the total current liabilities of the Group amounted to approximately RMB1,357.7 million (31 December 2014: approximately RMB1,121.7 million), mainly comprised trade payables of approximately RMB202.8 million (31 December 2014: approximately RMB184.2 million), other payables and accruals of approximately RMB472.3 million (31 December 2014: approximately RMB373.5 million), interest-bearing bank loans and other borrowings of approximately RMB650.5 million (31 December 2014: approximately RMB517.2 million) and CIT payables of approximately RMB31.7 million (31 December 2014: approximately RMB46.4 million).

Trade payables

	30 June 2015 RMB'M (Unaudited)	31 December 2014 RMB'M (Audited)
Ausnutria China	10.3	10.6
Ausnutria Hyproca Group	192.5	173.6
The Group	202.8	184.2

The increase in trade payables as at 30 June 2015 was mainly due to the increase in purchase by the Ausnutria Hyproca Group following the completion of the upgrading of its production facilities and the general increase in credit periods granted by the suppliers for the financing of the working capital of the Ausnutria Hyproca Group as a result of the increase in the scale of operations.

The trade payable turnover days of Ausnutria China and the Ausnutria Hyproca Group as at 30 June 2015 was approximately 13 days (31 December 2014: approximately 17 days) and approximately 70 days (31 December 2014: approximately 53 days), respectively.

Interest-bearing bank loans and other borrowings

The interest-bearing bank loans and other borrowings as at 30 June 2015 and 31 December 2014 were all primarily used for the financing of the daily working capital and capital expenditures of the Ausnutria Hyproca Group.

The increase in the interest-bearing bank loans and other borrowings as at 30 June 2015 was mainly due to the drawdown of additional bank loans by the Group for the financing of the New Factory project. In June 2015, the Ausnutria Hyproca Group has been granted with a new banking facilities (the “New Bank Facilities”) from banks in the Netherlands of a total of EUR77.0 million which replaced the previous overdrafts banking facilities of EUR27.0 million for the financing of its future working capital and the New Factory project.

Non-current liabilities

As at 30 June 2015, the total non-current liabilities of the Group amounted to approximately RMB198.4 million (31 December 2014: approximately RMB96.6 million), comprised interest-bearing bank loans and other borrowings of approximately RMB156.6 million (31 December 2014: approximately RMB51.9 million), accruals for defined benefit plan of approximately RMB14.5 million (31 December 2014: approximately RMB15.7 million) and deferred tax liabilities of approximately RMB27.3 million (31 December 2014: approximately RMB29.1 million).

The increase in non-current portion of interest-bearing bank loans and other borrowings was due to the drawdown of term loans from the New Bank Facilities for the financing of the capital expenditures of the Ausnutria Hyproca Group.

There were no significant changes in the other non-current liabilities position of the Group as at 30 June 2015 when compared with 31 December 2014.

Non-controlling interests

As at 30 June 2015 and 31 December 2014, the balance mainly represented the 49% equity interests in Ausnutria Hyproca owned by DDI and the minority equity interests of the subsidiaries established in the overseas countries for the distribution of Kabrita series products.

As set out in the announcement of the Company dated 20 July 2015, the acquisition of the 49% equity interest in Ausnutria Hyproca was approved by the Shareholders at the extraordinary general meeting of the Company subsequent to the reporting period on 20 July 2015.

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGE OF ASSETS

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

		30 June 2015	31 December 2014
	<i>Note</i>	<i>RMB'M</i>	<i>RMB'M</i>
		(Unaudited)	(Audited)
Interest-bearing bank loans and other borrowings		807.2	569.1
<i>Less:</i> Pledged deposits		(669.7)	(216.9)
Time deposits		(100.0)	(465.1)
Cash and cash equivalents		(376.6)	(278.3)
Net cash		(339.1)	(391.2)
Total assets		2,788.5	2,433.3
Gearing ratio	<i>1</i>	<u>N/A</u>	<u>N/A</u>

Note:

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

As at 30 June 2015, the Group had pledged the land and buildings, plant and machineries, inventories and trade receivables that were owned by the Ausnutria Hyproca Group with a total carrying value of approximately EUR138.0 million, equivalent to approximately RMB947.9 million (31 December 2014: approximately EUR98.8 million, equivalent to approximately RMB736.8 million) and the time deposits that were attributable to Ausnutria China of RMB669.7 million (31 December 2014: RMB216.9 million) for the banking facilities granted to the Group for the financing of the daily working capital and the capital expenditure plans of the Ausnutria Hyproca Group.

FOREIGN EXCHANGE RISK

The operations of the Group are mainly carried out in the PRC and the Netherlands. During the 2015 Interim Period, revenue, cost of sales and operating expenses of the Group are mainly denominated in Renminbi (“RMB”), Hong Kong dollars (“HK\$”), United States dollars (“US\$”) or EURO (“EUR”) and RMB is the Group’s presentation currency. The Group is exposed to potential foreign exchange risk as a result of fluctuation of HK\$, US\$ or EUR against RMB. The Group did not enter into any arrangements for the purpose of hedging against the potential foreign exchange risks during the period under review.

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

INTEREST RATE RISK

The Ausnutria Hyproca Group has exposure to the risk of change in market interest rate in relation to its interest-bearing bank loans and other borrowings with a floating interest rate. In order to minimise the impact of the interest rate exposure, the Ausnutria Hyproca Group entered into interest rate swap contracts with bank, effective from 1 October 2007, of a notional amount of 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 minimise credit risk. As the Group’s exposure spreads over a diversified portfolio of customers, there is no significant concentration of credit risk.

The carrying amounts of cash and cash equivalents, pledged deposits, trade and bill receivables, deposits and other receivables represent the Group’s maximum exposure to credit risk in relation to the Group’s other financial assets.

COMMITMENTS

As at 30 June 2015, the Group, as lessee, had total future minimum lease payments under non-cancellable operating leases amounting to approximately RMB7.3 million (31 December 2014: approximately RMB8.0 million).

As at 30 June 2015, the Group had contracted, but not provided for, capital commitments in respect of purchase of plant and machineries mainly for the New Factory of approximately RMB3.3 million (31 December 2014: approximately RMB40.0 million).

CONTINGENT LIABILITIES

As at 30 June 2015, the Group did not have any significant contingent liabilities (31 December 2014: Nil).

USE OF PROCEEDS

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

The use of the Net IPO Proceeds from the global offering up to 30 June 2015 was as follows:

	As stated in the prospectus* HK\$'000	Utilised HK\$'000	Balance as at 31 December 2014 HK\$'000	Utilised HK\$'000	Balance as at 30 June 2015 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	(18,095)	–
Introduce new series of organic paediatric nutrition products	82,310	(64,856)	17,454	(3,550)	13,904
Establish new production lines and warehouse	82,310	(82,310)	–	–	–
General working capital	82,310	(82,310)	–	–	–
	<u>823,100</u>	<u>(787,551)</u>	<u>35,549</u>	<u>(21,645)</u>	<u>13,904</u>

The unused Net IPO Proceeds balance was deposited in reputable financial institutions in the PRC.

* *The Directors intend to apply the remaining Net IPO Proceeds in the manner as stated in the prospectus of the Company dated 24 September 2009 (the “Prospectus”) and as subsequently amended as set out in the announcement of the Company dated 8 September 2010 to place the 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

As at 30 June 2015, the Group has a total of 1,784 (31 December 2014: 1,617) full-time employees. For the 2015 Interim Period, total employee costs, including directors' emoluments, amounted to approximately RMB145.6 million (2014 Interim Period: approximately RMB122.7 million). The Group determined the remuneration packages of all employees with reference to individual performance and current market salary scale.

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Shares during the 2015 Interim Period (2014 Interim Period: Nil).

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 embodied in the CG Code where feasible and as far as practicable.

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

DIRECTORS' SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The Company's audit committee comprises three independent non-executive Directors, namely, Mr. Lau Chun Fai Douglas (Chairman), Mr. Qiu Weifa and Mr. Jason Wan. The audit committee has reviewed the unaudited interim condensed consolidated financial statements of the Group for the 2015 Interim Period 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 INTERIM RESULTS AND INTERIM REPORT

The interim report of the Company for the 2015 Interim Period, which contains the detailed results and other information of the Company for the 2015 Interim Period 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 PRC, 25 August 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.