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 Report 2016

澳优·海普诺凯
Ausnutria

Contents

Corporate Information

BOARD OF DIRECTORS

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

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

Independent Non-executive Directors
Ms. Ho Mei-Yueh (appointed on 19/1/2016)
Mr. Jason Wan
Mr. Lau Chun Fai Douglas

COMPANY SECRETARY
Mr. Wong Wei Hua Derek

AUTHORISED REPRESENTATIVES
Ms. Ng Siu Hung
Mr. Wong Wei Hua Derek

AUDIT COMMITTEE
Mr. Lau Chun Fai Douglas *(Chairman)*
Ms. Ho Mei-Yueh (appointed on 19/1/2016)
Mr. Jason Wan

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

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

AUDITORS
Ernst & Young
Certified Public Accountants

COMPLIANCE ADVISER
Asian Capital (Corporate Finance) Limited

REGISTERED OFFICE
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Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACES OF BUSINESS

In Mainland China
8th Floor, XinDaXin Building A
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In Hong Kong
Unit 16, 36/F., China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Sheung Wan
Hong Kong

In the Netherlands
Dokter van Deenweg 150
8025 BM Zwolle
The Netherlands

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

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

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

STOCK CODE
1717

COMPANY'S WEBSITE
www.ausnutria.com.hk

Management Discussion and Analysis

The board (the "**Board**") of directors (the "**Directors**") of Ausnutria Dairy Corporation Ltd (the "**Company**") is pleased to present the interim report of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2016 (the "**2016 Interim Period**").

BUSINESS REVIEW

During the 2016 Interim Period, the dairy industry, in particular, in the People's Republic of China (the "**PRC**") which is the Group's principal market, continued to be challenging. On the one hand, it is anticipated that the PRC's market will continue to maintain a steady growth due to the relaxation of the one-child policy and the rising living standards in the PRC, while on the other hand, the continuous launching of new policies by the PRC government is bringing uncertainties to the development of the dairy industry. However, given the infrastructure that the Company has established in the past, including but not limited to, the solid wholly-owned production base in the Netherlands and the extensive distribution network in the PRC and overseas, the Group will benefit from the industry reforms in the medium to long run.

Infant Milk Formula Business

(A) Own brands "Cow milk-based"

The Group commenced its business for the marketing and distribution of cow milk-based infant milk formula in the PRC with its milk source principally based in Australia and under the brand names of *Allnutria*, *A Choice* and *Best-Choice* since 2003. In order to secure the long-term growth of the Group, the Group acquired 51% and 49% equity interests in Ausnutria Hyproca B.V. ("**Ausnutria Hyproca**"), which together with its subsidiaries (the "**Ausnutria Hyproca Group**"), owned the dairy related production facilities in the Netherlands, in 2011 and 2015, respectively. In 2013 and 2014, in order to further integrate the business of the Ausnutria Hyproca Group and support the future own-branded infant milk formula development of the Group, the Group invested significant amount on capital expenditures in order to increase and improve the productivity and the quality standards of the Ausnutria Hyproca Group. The production facilities upgrading plan of the Ausnutria Hyproca Group was completed at the end of 2015.

In order to meet the continuous growth in demand of infant milk formula in the PRC and to cater for the different needs of the wide range of consumers in the PRC, the Group has also launched a number of other brands, including but not limited to, *Puredo, Hyproca 1897, Neolac, Mygood and Eurlate* in recent years. For marketing and strategic reasons, these brands are managed and operated by different business entities of the Group. Besides, in order to ensure stable and sufficient infant milk formula supply and to mitigate the risk of milk source being over concentrated in a particular area, the Group extents its infant milk formula supply to a number of other countries in recent years. For the 2016 Interim Period, the infant milk formula sold by the Group in the PRC are supplied by different manufacturers which are located in New Zealand, Australia, France as well as the Group's own factories in the Netherlands. The Board believes that the above strategies will facilitate the long-term continuous growth of the Group.

For the 2016 Interim Period, sale of cow milk-based own-branded infant milk formula increased by approximately 48.9% to approximately RMB434.1 million. The continuous growth in the sale of cow milk-based own-branded infant milk formula was mainly driven by (i) the continuous increase in demand of infant milk formula in the PRC; (ii) the increasing recognition of the high quality standards of infant milk formula manufactured by the Group; and (iii) the adjusted business strategies of the Group.

(B) Own brands "Goat milk-based"

The Group introduced the *Kabrita* series products in the PRC in 2011 and thereafter in Russia and the Commonwealth of Independent States (the "**CIS**"), Europe, the Middle East, the United States, Canada, Brazil and South Africa.

During the 2016 Interim Period, sale of the *Kabrita* series products continues to be promising and has become one of the Group's key profit contributors. For the 2016 Interim Period, sale of the *Kabrita* series products amounted to approximately RMB358.1 million, representing an increase of approximately RMB118.0 million, or approximately 49.1%, when compared with the six months ended 30 June 2015 (the "**2015 Interim Period**") and accounted for approximately 28.6% (2015 Interim Period: 26.3%) of the total revenue of the Group. According to the data as obtained from the PRC customs, the *Kabrita* series products has been ranked as the number one imported goat milk-based infant milk formula in the PRC by volume in 2015.

All the *Kabrita* series products are manufactured by the Ausnutria Hyproca Group in the Netherlands since they were launched in 2011. The continuous success in *Kabrita* is mainly attributable to (i) the effective marketing strategy launched by the Group; (ii) the unique formula; and (iii) the unique position and business model of the Ausnutria Hyproca Group (the upstream) which facilitates the development and manufacture of this product.

As part of the long-term strategy of the Group to launch *Kabrita* worldwide, in 2014, the Group approved clinical trials to apply for approval by the Food and Drug Administration (the "**FDA**") for the sale of the *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 the *Kabrita* series products has been carried out as scheduled.

The Group will continue to launch the *Kabrita* series products in other major countries and aim to become a global market leader in goat milk-based infant nutrition products. This ambition will be leveraged by the studies and clinical trial conducted by (i) the medical school of Peking University; (ii) the clinical studies in Europe; and (iii) the in-house research and development team in the Netherlands and in North America during the course of applying for FDA approval.

(C) ***Private Label business***

Other than the development of own-branded business, the Ausnutria Hyrpoca Group also produces infant milk formula for other worldwide customers on an OEM basis (the "**Private Label**") in order to fully utilize the capacity and maximise its production efficiency. In view that the facilities upgrading plans were completed in 2015, the Ausnutria Hyproca Group has allocated more of its production capacity for the 2016 Interim Period to serve the Private Label customers. For the 2016 Interim Period, sale of the Private Label business has increased by approximately 147.4% to approximately RMB241.7 million, which represented approximately 19.3% (2015 Interim Period: 10.7%) of the total revenue of the Group.

The New Factory in the Netherlands

In 2014, the Group has approved and commenced the construction of a new factory in Heerenveen, the Netherlands (the "**New Factory**"). The purpose of investing in the New Factory is to improve the blending and packaging capacity as well as the quality standards of the products of the Group. According to the latest plan, the investment cost (including the cost of a plot of land with approximately 140,000 square meters and all the production facilities) in the New Factory is estimated to increase by approximately 10% from previous estimate of approximately EUR83.0 million (equivalent to approximately RMB618.8 million). The increase in the budgeted investment cost in the New Factory was mainly due to additional investments made/to be made in order to cater for the different regulatory requirements laid down/anticipated to be laid down by major countries in the world.

The construction of the New Factory is financed by banking facilities granted to the Ausnutria Hyproca Group, the proceeds from the open offer that was completed by the Company in December 2015 as well as the Group's internal working capital. Upon the completion of the construction of the New Factory, the blending and packaging capacity of the Group in the Netherlands can be increased progressively from approximately 30,000 tons to as high as 90,000 tons by 2019.

As at 30 June 2016, the Group has already invested approximately EUR41.9 million (equivalent to approximately RMB308.7 million) in the New Factory and the construction of the building has already been substantially completed. In the coming months, the Group will focus on the utilities installations, and thereafter the installation of the equipment and machineries. According to the current schedule in relation to the construction of the New Factory, the trial production will commence in early 2017.

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

Management Discussion and Analysis

Upward Integration and Product Diversification

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

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

The Group realises the business potentials and importance to continue the supply of quality nutrition products and serve the infants in their future life. In order to meet the needs of the consumers, the Board has approved the commencement of business in functional liquid milk (the "**Liquid Milk**") and the establishment of a work force to conduct nutrition business (the "**Nutrition Business**") in the PRC during the 2016 Interim Period. Based on the business plans approved by the Board, the products of the Liquid Milk and the Nutrition Business will be imported from overseas with target customers primarily in the PRC.

During the 2016 Interim Period, the Group established Globlait Nutrition (Changsha) Co., Ltd. ("**Globlait Nutrition**"), which was owned as to 67% by the Group for the marketing and distribution of the Liquid Milk in the PRC. The remaining equity interest was owned by the management of Globlait Nutrition. According to the latest business development, sale of Globlait Nutrition is expected to commence in the third quarter of 2016 and total operating expenses incurred by Globlait Nutrition amounted to approximately RMB5.4 million for the 2016 Interim Period.

Human Resources

As at 30 June 2016, the Group has a total of 2,064 (31 December 2015: 1,940) employees. With the rapid growing in the scale of operations of the Group, the Board realises the importance of team building and human resources development as one of the key factors for the continuing success of the Group. Since 2015, the Group has established Ausnutria University, an internal training organisation, to support the development of key talents and to provide continuous training to employees. Through the establishment of Ausnutria University and the committed investments in human resources, the Board believes that the human resources of the Group, which is considered to be the key asset of the Group, will be stronger in the long run and is considered to be essential for the long-term growth of the Group.

Besides, on 21 January 2016 and 6 July 2016, the Group granted 34,800,000 and 12,015,000 share options to the Directors, certain senior management and consultants of the Group. The number of total share options granted, which are exercisable at the price of HK$2.45, represented approximately 3.8% of the issued share capital of the Company as at the date of this report. The issuance of share options has resulted in an expense of approximately RMB6.4 million (2015 Interim Period: N/A) being charged to the consolidated profit and loss account of the Company for the 2016 Interim Period.

Management Discussion and Analysis

INDUSTRY OVERVIEW

As a result of the increasing public health awareness and the demand for higher food quality and safety standards worldwide, in particular for infant nutrition products, new regulations and policies have been proposed from time to time in order to maintain the related industry's healthy growth and to improve the quality and safety standards.

Currently, there are almost 2,000 brands of infant milk formula produced from about 103 manufacturers in the PRC. Following the implementation of a number of new policies in the PRC in recent years which impose stringent quality controls of infant milk formula in the PRC, on 8 June 2016, the China Food and Drug Administration further promulgated the Administrative Measures for the Registration of Formulas for Infant Milk Formula Powder（《嬰幼兒配方乳粉產品配方註冊管理辦法》）(hereinafter referred to as the "**Measures**").

The purposes of implementing the Measures are to strengthen the supervision over the research and development and the formulation of the infant milk powder by enterprise and to improve their research and development, production and inspection capabilities with an aim to further enhance the quality and safety standards of infant milk formula in the PRC. The Measures are considered to be one of the most stringent regulations on infant milk powder in the world and will come into effect on 1 October 2016.

Firstly, the Measures specify that domestic and imported infant milk formula sold in the PRC will be subject to the registration system which is designed with reference to the more stringent quality control system in the pharmaceutical sector in the PRC. Registration for infant milk formula shall be approved only if the manufacturer possesses the required research and development, production and inspection capabilities, and can meet the relevant regulatory requirements for the production of infant food formula according to the relevant laws and regulations and the national food safety requirements in the PRC.

Secondly, the number of formula to be manufactured by each enterprise is limited in order to facilitate consumers' evaluation of different formula in the market. The Measures stipulate that each enterprise shall, in principle, own not more than three brands.

Thirdly, labeling and advertising of infant milk formula will be regulated to avoid delivering misleading information to the consumers. The Measures require industry participants to submit supporting materials for the functions set forth in the labels of their products during their registration process.

Fourthly, the regulatory requirements and the legal liability of market participants will be clearly stated under the Measures.

With the implementation of the Measures, it is believed that the infant milk formula market in the PRC will grow in a more healthy and positive direction in the long run. Given the solid foundation that the Group has established over the years, the stringent and high quality controls and research and development capabilities of the Group, the Board believes that the Group will benefit from the implementation of the Measures.

Management Discussion and Analysis

PROSPECTS

The Board believes that the Group's objective to acquire upstream dairy-related assets was successfully achieved following the completion of acquisition of the entire equity interest in Ausnutria Hyproca and the completion of the facilities upgrading projects of the Ausnutria Hyproca Group.

In order to realize the long-term business strategies of the Group of serving consumers with a full range of nutrition products and improving the Group's market position in infant milk formula sector, subsequent to the 2016 Interim Period, the Group has conducted the followings.

On 11 July 2016, the Group and Hunan XinDaXin Company Limited 湖南新大新股份有限公司 ("**Hunan XinDaXin**") entered into a share transfer agreement. Pursuant to which, the Group agreed to acquire and Hunan XinDaXin agreed to sell the entire equity interest in Hunan Mornring Foodstuff Co., Ltd. 湖南沐林現代食品有限公司(the "**Mornring Acquisition**"), the principal activity of which is the holding of a plot of land and building (the "**Properties**") that is adjacent to the Group's existing production facility in Changsha city, the PRC, at a consideration of RMB28.5 million.

The purpose of the Mornring Acquisition is to facilitate the future expansion of the Group's storage and production facilities in Changsha city, the PRC. The consideration was determined after arm's length negotiation between the Group and Hunan XinDaXin based on the appraised value of the Properties reported under a valuation report produced by an independent qualified appraisal company in Hong Kong.

The Group is now in the process of formulating a detail business plan for the future development of the Properties. Further details regarding the Mornring Acquisition are set out in the announcement of the Company dated 11 July 2016. The Mornring Acquisition was completed in July 2016.

Save for the above, the Group has been exploring investment opportunities that help diversify the Group's milk supply and also the Group's product mix. In particular, the Company is in negotiation with independent parties for the possible co-operations in the manufacture and distribution of nutrition products in Oceania (the "**Possible Co-operations**").

The Board wishes to emphasise that the Possible Co-operations may or may not proceed. In the event that any definitive agreement is entered into, the Possible Co-operations may or may not constitute a notifiable transaction for the Company under the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Company will make further announcement as and when appropriate.

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

Management Discussion and Analysis

FINANCIAL REVIEW

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

Revenue

	Notes	Six months ended 30 June 2016 RMB'M (Unaudited)	2015 RMB'M (Unaudited)	Change %
Own brands:				
Cow milk-based^	(i)	**434.1**	291.5	48.9
Goat milk-based and others*	(ii)	**358.1**	240.1	49.1
Private labels*	(iii)	**241.7**	97.7	147.4
Milk powder*	(iv)	**120.8**	140.2	–13.8
Contract manufacturing*	(v)	**–**	10.1	–100.0
Butter*	(vi)	**47.8**	55.0	–13.1
Others*	(vii)	**48.5**	77.7	–37.6
		1,251.0	912.3	37.1

^ Attributable to the Group, excluding the Ausnutria Hyproca Group (the "Ausnutria Group")

* Attributable to the Ausnutria Hyproca Group

Notes:

(i) Represented the sale of own-branded cow milk-based infant milk formula in the PRC.

(ii) Mainly represented the sale of own-branded goat milk-based infant milk formula *Kabrita* in the PRC, Russia and CIS, United States and the Middle East countries.

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

(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.

Management Discussion and Analysis

For the 2016 Interim Period, the Group recorded revenue of approximately RMB1,251.0 million, representing an increase of approximately RMB338.7 million, or approximately 37.1%, from approximately RMB912.3 million for the 2015 Interim Period. Despite the competition of the infant milk formula market in the PRC continues to be intense during the 2016 Interim Period, revenue of the Group continues to increase and this was mainly attributable to (i) the continuous increase in the sale of own-branded products which has been driven by the adjusted marketing strategies of the Group; and (ii) the increase in the sale of the Private Label products following the completion of the Group's production facilities upgrading plan in the Netherlands that was completed in 2015.

As a higher portion of the Group's production capacity in the Netherlands has been allocated to own-branded and the Private Label businesses, the sale of other businesses, which their revenue were derived from the operations in the Netherlands and with comparatively lower margin contributions, decreased for the 2016 Interim Period.

Gross profit and gross profit margin

	Six months ended 30 June		Six months ended 30 June	
	2016	2015	**2016**	2015
	RMB'M	RMB'M	**%**	%
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Ausnutria Group	**236.1**	149.7	**54.3**	51.4
Ausnutria Hyproca Group	**274.9**	140.4	**33.7**	22.6
The Group	**511.0**	290.1	**40.8**	31.8

The Group's gross profit for the 2016 Interim Period was approximately RMB511.0 million, representing an increase of approximately RMB220.9 million, or approximately 76.1%, when compared with the 2015 Interim Period. The increase in the gross profit margin of the Group from 31.8% for the 2015 Interim Period to 40.8% for the 2016 Interim Period was mainly attributable to the proportionate increase in the sales of the higher profit margin own-branded products 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 RMB19.4 million (2015 Interim Period: approximately RMB14.5 million), grants from the government in the PRC of approximately RMB1.0 million (2015 Interim Period: approximately RMB2.5 million) and proceeds from the sale of scraps.

Selling and distribution expenses

	Six months ended 30 June	
	2016	2015
	RMB'M	RMB'M
	(Unaudited)	(Unaudited)
Ausnutria Group	**133.0**	88.9
Ausnutria Hyproca Group	**154.8**	114.1
The Group	**287.8**	203.0

Selling and distribution expenses mainly comprised advertising and promotion expenses, salaries and travelling costs of the sales and marketing staff and delivery costs. The growth in selling and distribution expenses, which represented approximately 23.0% and 22.3% of the Group's revenue for the 2016 Interim Period and the 2015 Interim Period, respectively, was in line with the growth in sales.

Administrative expenses

	Six months ended 30 June	
	2016	2015
	RMB'M	RMB'M
	(Unaudited)	(Unaudited)
Ausnutria Group	**49.2**	24.6
Ausnutria Hyproca Group	**34.5**	27.2
The Group	**83.7**	51.8

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

Since 2015, the Group has established a number of subsidiaries and increased the headcounts as part of the strategies to expand the businesses and operations of the Group. New offices have been rented in both the Netherlands as well as in the PRC in order to cater for such strategies and increase in the headcounts of the Group.

Besides, the issue of the share options during the 2016 Interim Period has also resulted in an expense of approximately RMB6.4 million (2015 Interim Period: N/A) being charged and included in administrative expenses for the 2016 Interim Period.

Administrative expenses increased when compared with the corresponding period in 2015.

Management Discussion and Analysis

Other expenses

Other expenses for the 2016 Interim Period mainly comprised exchange losses of approximately RMB3.4 million (2015 Interim Period: approximately RMB0.3 million) arising from the conversions of various bank loans that were denominated in EURO or Hong Kong dollars; impairment for trade receivables of a total of approximately RMB3.6 million (2015 Interim Period: Nil) attributed to two overseas distributors which the Group has terminated the businesses; and legal and professional fees of approximately RMB1.9 million (2015 Interim Period: Nil) incurred in the exploration of potential investment and acquisition opportunities.

The balance of 2015 Interim Period mainly comprised legal and professional fees incurred for the acquisition of the 49% equity interests in Ausnutria Hyproca.

Finance costs

The finance costs of the Group for the 2016 Interim Period amounted to approximately RMB8.8 million (2015 Interim Period: approximately RMB7.3 million), representing the interest on bank and other borrowings raised principally for the financing of the working capital and capital expenditures of the Group's operations in the Netherlands.

The increase in finance costs was in line with the increase in bank loans drawn down during the period.

Share of profits of associates

In 2014, the Group invested in 50% of the equity interest in the Farmel Group, which is principally engaged in the collection and trading of milk in Europe, in order to secure its milk supply in the Netherlands. The share of profits of the Farmel Group for the 2016 Interim Period amounted to approximately RMB2.1 million (2015 Interim Period: approximately RMB2.0 million).

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 corporate income tax (the "**CIT**") at a rate of 25%. Ausnutria Dairy (China) Co., Ltd. ("**Ausnutria China**") was designated as a High-tech Enterprise and was granted a preferential CIT tax rate of 15%. 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 2016 Interim Period was 26.7%, representing an increase of approximately 3.8 percentage points when compared with the 2015 Interim Period. This was mainly due to the proportionate increase in profit contributed by the other operating subsidiary established in the PRC for the sale of the *Kabrita* series products which are subject to the standard CIT rate of 25%.

Profit attributable to equity holders of the Company

As a result of the continuous increase in the sale of the Group, in particular the own-branded sector which was driven by the adjusted marketing strategy of the Group, and the turnaround in the financial performance of the operations in the Netherlands after the processing and facilities upgrading plan of the Group's factories in the Netherlands was completed in 2015, the Group's profit attributable to equity holders of the Company for the 2016 Interim Period amounted to approximately RMB101.5 million (2015 Interim Period: approximately RMB40.5 million), representing an increase of approximately 150.6% when compared with that for the 2015 Interim Period.

Analysis on Condensed Consolidated Statement of Financial Position

Non-current assets

As at 30 June 2016, the total non-current assets of the Group amounted to approximately RMB932.1 million (31 December 2015: approximately RMB837.1 million), mainly comprised property, plant and equipment of approximately RMB655.1 million (31 December 2015: approximately RMB586.3 million), goodwill arising from the acquisition of 51% equity interest in Ausnutria Hyproca in 2011 of approximately RMB74.9 million (31 December 2015: approximately RMB72.1 million), other intangible assets of approximately RMB48.3 million (31 December 2015: approximately RMB45.7 million), investments in the Farmel Group which was made by the Ausnutria Hyproca Group in 2014 and engaged in the collection and trading of cow and goat milk of approximately RMB35.7 million (31 December 2015: RMB32.3 million) and deferred tax assets of approximately RMB116.1 million (31 December 2015: approximately RMB98.8 million).

The increase in the non-current assets of the Group as at 30 June 2016 was principally due to investment in the New Factory made during the 2016 Interim Period. For the 2016 Interim Period, the Group invested approximately EUR6.2 million (equivalent to approximately RMB45.7 million) (2015 Interim Period: EUR16.9 million) (equivalent to approximately RMB116.3 million) in the New Factory project. According to the latest progress of the New Factory project, the New Factory is expected to commence production in early 2017.

Other non-current assets position of the Group as at 30 June 2016 remained fairly stable when compared with that as at 31 December 2015.

Current assets

As at 30 June 2016, the total current assets of the Group amounted to approximately RMB2,569.5 million (31 December 2015: approximately RMB2,193.4 million), mainly comprised inventories of approximately RMB834.4 million (31 December 2015: approximately RMB579.9 million), trade and bills receivables of approximately RMB159.6 million (31 December 2015: approximately RMB185.4 million), pledged deposits of RMB730.8 million (31 December 2015: RMB769.7 million), time deposits with banks in the PRC of RMB422.4 million (31 December 2015: RMB186.0 million) and cash and cash equivalents of approximately RMB175.3 million (31 December 2015: approximately RMB307.6 million).

The increase in the total current assets of the Group by approximately RMB376.1 million was mainly due to (i) the increase in time deposits and cash and cash equivalents by approximately RMB104.1 million; and (ii) the increase in inventories by approximately RMB254.5 million as at 30 June 2016 when compared with that as at 31 December 2015.

Inventories

As at 30 June 2016, the inventories of the Group amounted to approximately RMB834.4 million (31 December 2015: RMB579.9 million).

The inventory turnover days of the Group as at 30 June 2016 were approximately 172 days (31 December 2015: approximately 146 days). The increase in both the inventories and the inventory turnover days of the Group was mainly attributed to (i) the Group's strategies to increase the focus on the development of own-branded business 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 2016 Interim Period.

Trade and bills receivables

The trade receivable turnover days of the Group as at 30 June 2016 were approximately 19 days (31 December 2015: approximately 23 days). The decrease in both trade receivables and trade receivable turnover days was mainly due to the proportionate increase in sales contributed by own-branded business which would normally require full payments before goods are to be despatched to customers/distributors as compared with other business segments which have credit terms ranging from 30 to 45 days granted to the customers.

Pledged deposits

The Company has approved a number of facilities upgrading plans and the New Factory project in the Netherlands during the period from 2013 to 2015. In view of the fact 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 upgrading plans and the New Factory project.

The amount of deposits pledged with banks in the PRC remained fairly stable during the 2016 Interim Period.

Time deposits and cash and cash equivalents

As at 30 June 2016, the Group's time deposits and cash and cash equivalents amounted to approximately RMB597.7 million (31 December 2015: approximately RMB493.6 million). The increase was mainly due to the cash inflows from operating activities of approximately RMB56.5 million generated by the Group during the 2016 Interim Period.

Current liabilities

As at 30 June 2016, the total current liabilities of the Group amounted to approximately RMB1,669.9 million (31 December 2015: approximately RMB1,474.3 million), mainly comprising trade payables of approximately RMB239.3 million (31 December 2015: approximately RMB172.7 million), other payables and accruals of approximately RMB615.2 million (31 December 2015: approximately RMB475.8 million), interest-bearing bank loans and other borrowings of approximately RMB722.3 million (31 December 2015: approximately RMB757.0 million) and CIT payables of approximately RMB89.6 million (31 December 2015: approximately RMB66.9 million).

Trade payables

The trade payable turnover days of the Group as at 30 June 2016 were approximately 50 days (31 December 2015: approximately 42 days). The increase in both trade payables and trade payable turnover days of the Group was mainly attributable to the increase in the scale of operations of the Group.

Interest-bearing bank loans and other borrowings

The interest-bearing bank loans and other borrowings as at 30 June 2016 and 31 December 2015, which were primarily used for the financing of the daily working capital and capital expenditures of the Group's operations in the Netherlands, remained fairly stable during the period.

Non-current liabilities

As at 30 June 2016, the total non-current liabilities of the Group amounted to approximately RMB398.7 million (31 December 2015: approximately RMB228.7 million), comprising interest-bearing bank loans and other borrowings of approximately RMB354.7 million (31 December 2015: approximately RMB189.2 million), accruals for defined benefit plan of approximately RMB18.5 million (31 December 2015: approximately RMB12.9 million) and deferred tax liabilities of approximately RMB25.5 million (31 December 2015: approximately RMB26.6 million).

The increase in non-current liabilities of the Group was mainly due to the drawdown of additional bank loans for the financing of the construction of the New Factory in the Netherlands during the period.

Non-controlling interests

As at 30 June 2016 and 31 December 2015, the balance mainly represented the participation by the management in various subsidiaries of the Company engaged in the cow and goat milk-based infant milk formula and the Liquid Milk businesses of the Group.

Other Information

FINANCIAL RESOURCES, LIQUIDITY AND PLEDGE OF ASSETS

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

	Note	**30 June 2016 RMB'M (Unaudited)**	31 December 2015 RMB'M (Audited)
Interest-bearing bank loans and other borrowings		**(1,076.9)**	(946.2)
Less: Pledged deposits		**730.8**	769.7
Time deposits		**422.4**	186.0
Cash and cash equivalents		**175.3**	307.6
Net cash		**251.6**	317.1
Total assets		**3,501.6**	3,030.5
Gearing ratio	1	**N/A**	N/A

Note:

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

As at 30 June 2016, the Group had pledged the land and buildings, plant and machineries, inventories and trade receivables that were mainly attributable to the operations in the Netherlands with a total carrying value of approximately EUR178.5 million, equivalent to approximately RMB1,316.6 million (31 December 2015: approximately EUR111.4 million, equivalent to approximately RMB790.7 million) and the time deposits that were placed in the PRC of RMB730.8 million (31 December 2015: RMB769.7 million) for the banking facilities granted to the Group for the financing of the daily working capital and the capital expenditure plans of the Group's operations in the Netherlands.

FOREIGN EXCHANGE RISK

The operations of the Group are mainly carried out in the PRC and the Netherlands. During the 2016 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 its foreign currency exposure to ensure appropriate measures are taken promptly against any significant potential adverse impact.

INTEREST RATE RISK

The 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 Group entered into various interest rate swap contracts with banks, effective from 1 October 2007 and 30 September 2015, of a notional amount of EUR2.5 million and EUR19.0 million with 3-month floating EURO Interbank Offered Rate being swapped to a fixed interest rate of 4.45% and 2.77% per annum, respectively. The aforesaid derivative financial instruments will expire in October 2017 and June 2020, respectively.

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, trade and bill receivables and deposits and other receivables represent the Group's maximum exposure to credit risk in relation to the Group other financial assets.

COMMITMENTS

As at 30 June 2016, the Group, as lessee, had total future minimum lease payments under non-cancellable operating leases amounting to approximately RMB16.8 million (31 December 2015: approximately RMB16.3 million).

As at 30 June 2016, the Group had contracted, but not provided for, capital commitments in respect of purchase of plant and machineries and construction of the New Factory of a total of approximately RMB179.7 million (31 December 2015: approximately RMB172.9 million).

Other Information

CONTINGENT LIABILITIES

As at 30 June 2016, the Group did not have any significant contingent liabilities (31 December 2015: Nil).

USE OF PROCEEDS

In order to finance the future investments and the long-term growth of the Group, on 28 October 2015, the Company proposed to raise approximately HK$249.55 million (before expenses) by way of an open offer of 113,430,230 offer shares (the "**Offer Shares**") at the offer price of HK$2.20 per Offer Share on the basis of one Offer Share for every ten existing Shares (the "**Open Offer**").

The gross and net proceeds raised from the Open Offer amounted to approximately HK$249.55 million and approximately HK$248.37 million, respectively.

The utilisation of the net proceeds from the Open Offer as at 30 June 2016 was summarised as follows:

	Net proceeds from the Open Offer HK$'000	Utilised HK$'000	**Balance as at 30 June 2016 HK$'000**
Construction of new production facilities in the Netherlands	130,000	(130,000)	**–**
Repayment of borrowings in the Netherlands	50,000	(50,000)	**–**
Investment in potential investment opportunities	50,000	(5,757)	**44,243**
General working capital	18,366	(18,366)	**–**
	248,366	(198,366)	**44,243**

Other Information

HUMAN RESOURCES

Number of full-time employees	Mainland China	Hong Kong	The Netherlands	Others	Total
30 June 2016					
Ausnutria Group	**1,010**	**3**	**–**	**–**	**1,013**
Ausnutria Hyproca Group	**571**	**–**	**392**	**88**	**1,051**
	1,581	**3**	**392**	**88**	**2,064**
31 December 2015					
Ausnutria Group	934	4	–	–	938
Ausnutria Hyproca Group	521	–	398	83	1,002
	1,455	4	398	83	1,940

For the 2016 Interim Period, total employee costs, including Directors' emoluments, amounted to approximately RMB197.6 million (2015 Interim Period: approximately RMB145.6 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.

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 of the Company (the "**Shares**") during the 2016 Interim Period (2015 Interim Period: Nil).

DIVIDEND DISTRIBUTION

The Board does not recommend a payment of an interim dividend for the 2016 Interim Period (2015 Interim Period: Nil).

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as contained in Appendix 10 to the 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 2016 Interim Period.

Other Information

CORPORATE GOVERNANCE

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

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

In the opinion of the Directors, the Company has complied with the respective code provisions of the CG Code during the 2016 Interim Period and up to the date of this report.

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

As at 30 June 2016 and as at the date of this report, the interests and short positions of the Directors and chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name	Number of Shares or underlying Shares	Long/Short Position	Nature of interest	Approximate percentage of issued share capital [5]
Mr. Yan Weibin ("**Mr. Yan**")	1,200,000	Long position	Registered owner[1]	0.09%
	106,539,085	Long position	Interest of a controlled corporation[2]	8.54%
Mr. Lin Jung-Chin ("**Mr. Lin**")	1,200,000	Long position	Registered owner[1]	0.09%
	551,500	Long position	Interest of spouse[3]	0.04%
Mr. Bartle van der Meer ("**Mr. van der Meer**")	1,200,000	Long position	Registered owner[1]	0.09%
	162,205,230	Long position	Interest of a controlled corporation[4]	13.00%
Ms. Ng Siu Hung	1,000,000	Long position	Registered owner[1]	0.08%
Mr. Tsai Chang-Hai	300,000	Long position	Registered owner[1]	0.02%
Mr. Zeng Xiaojun	300,000	Long position	Registered owner[1]	0.02%
Ms. Ho Mei-Yueh	300,000	Long position	Registered owner[1]	0.02%
Mr. Jason Wan	300,000	Long position	Registered owner[1]	0.02%
Mr. Lau Chun Fai Douglas	300,000	Long position	Registered owner[1]	0.02%

Notes:

1. These are the Shares subject to the exercise of the share options granted by the Company to the Directors on 21 January 2016 under the Share Option Scheme (as defined below).

2. The Shares are held by Ausnutria Holding Co Ltd ("**Ausnutria BVI**"), a company wholly-owned by Mr. Yan. Mr. Yan is therefore deemed to be interested in 106,539,085 Shares under the SFO.

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

4. The Shares are held by Dutch Dairy Investments B.V. ("**DDI**"). DDI is owned as to approximately 46.55% by PMH Investments B.V., which is beneficially owned as to 60.10% by Mr. van der Meer and 39.90% by Mr. Durk Andries van der Meer, being the son of Mr. van der Meer. Mr. van der Meer is therefore deemed to be interested in 162,205,230 Shares under the SFO.

5. As at 30 June 2016, the total number of the issued Share of the Company was 1,247,732,530.

Save as disclosed above, as at 30 June 2016, none of the Directors and chief executive of the Company had registered an interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the grant of share options on 21 January 2016 as set out under the Share Option Scheme (as defined below), at no time during the reporting period were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Other Information

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2016 and as at the date of this report, according to the register kept by the Company pursuant to Section 336 of the SFO and so far as was known to, or can be ascertained after reasonable enquiry by the Directors, the following persons (other than the Directors and chief executive of the Company) had and interest or short position in the shares and underlying interests of 5% or more of the issued share capital of the Company were as follows:

Name	**Number of ordinary share**	**Nature of interest**	**Approximate percentage of issued share capital**
Ausnutria BVI (Note 1)	106,539,085	Registered owner	8.54%
BioEngine Capital Inc. ("**BioEngine Capital**") (Note 2)	123,355,375	Registered owner	9.89%
Center Laboratories, Inc. ("**Center Lab**") (Note 2)	361,738,129	Registered owner	28.99%
	144,193,643	Interest of controlled corporations	11.56%
DDI (Notes 3 and 4)	162,205,230	Interest of controlled corporation	13.00%
Dutch Dairy Investments HK Limited (Note 4)	162,205,230	Registered owner	13.00%
Fan Deming BV (Notes 5 and 7)	162,205,230	Interest of controlled corporation	13.00%
Manids B.V. (Notes 3 and 6)	162,205,230	Interest of controlled corporation	13.00%
PMH Investments BV (Notes 3 and 7)	162,205,230	Interest of controlled corporation	13.00%
Reditus Holding BV (Notes 7 and 8)	162,205,230	Interest of controlled corporation	13.00%
Ms. Chen Miaoyuan (Note 10)	106,539,085	Interest of spouse	8.54%
Mr. Durk Andries van der Meer (Notes 8 and 9)	162,205,230	Interest of controlled corporation	13.00%
Mr. Ignatius Petrus Jorna (Note 6)	162,205,230	Interest of controlled corporation	13.00%

Notes:

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

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

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

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

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

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

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

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

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

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

Save as disclosed above, as at 30 June 2016, other than the Directors, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, the Company had not been notified by any other person who had a substantial interest or short positions in the Shares or underlying Shares that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

Summary of terms

A share option scheme was conditionally approved and adopted by a written resolution passed by all Shareholders on 19 September 2009 (the "**Share Option Scheme**") whereby the Board was authorised, at their discretion, to invite, among other eligible participants, employees of the Group (including proposed employees, whether full-time or part-time and including any executive Director), non-executive Directors (including independent non-executive Directors), advisers and consultants, to take up options to subscribe for the Shares. The purpose of the Share Option Scheme is to enable the Company to grant options to the selected participants as incentives or rewards for their contribution to the Group. Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 each of the Company. The Share Option Scheme shall be valid and effective for a period of ten years commencing on the date on which the Share Option Scheme becomes unconditional. Further details of the Share Option Scheme are set out in the prospectus of the Company dated 24 September 2009.

The total number of the Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme shall not in aggregate exceed 10% of the total number of the Shares in issue as at the date of approval of the Share Option Scheme (i.e. 100,000,000 Shares), which represents approximately 8.01% of the issued Share as at 30 June 2016.

Other Information

The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not aggregate exceed 30% of the issued share capital of the Company from time to time.

Present status of the Share Option Scheme

On 21 January 2016, options to subscribe for a total of 34,800,000 Shares of HK$0.10 each (the "**First Batch of Options Granted**") were granted to certain eligible participants pursuant to the Share Option Scheme, details as follows:

				Number of options					
Grantees	Date of grant	Exercise period	Exercise price per option	Outstanding at 1 January 2016	Granted during the 2016 Interim Period	Exercised during the 2016 Interim Period	Cancelled during the 2016 Interim Period	Lapsed during the 2016 Interim Period	Outstanding as at 30 June 2016
Directors									
Mr. Yan Weibin	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	1,200,000	–	–	–	1,200,000
Mr. Lin Jung-Chin	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	1,200,000	–	–	–	1,200,000
Mr. Bartle van der Meer	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	1,200,000	–	–	–	1,200,000
Ms. Ng Siu Hung	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	1,000,000	–	–	–	1,000,000
Mr. Tsai Chang-Hai	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	300,000	–	–	–	300,000
Mr. Zeng Xiaojun	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	300,000	–	–	–	300,000
Ms. Ho Mei-Yueh	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	300,000	–	–	–	300,000
Mr. Jason Wan	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	300,000	–	–	–	300,000
Mr. Lau Chun Fai Douglas	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	300,000	–	–	–	300,000
Sub-total				–	6,100,000	–	–	–	6,100,000
Other									
Continuous contract employees	21/01/2016	21/01/2017 – 20/01/2021	HK$2.45	–	28,700,000	–	–	(200,000)	28,500,000
Total				–	34,800,000	–	–	(200,000)	34,600,000

Note:

Subsequent to 30 June 2016, on 6 July 2016, options to subscribe for a total of 12,015,000 Shares of HK$0.10 each (the "**Second Batch of Options Granted**") were granted to certain eligible participants pursuant to the Share Option Scheme. Further details of the Second Batch of Options Granted are set out in the announcement of the Company dated 6 July 2016.

The closing price of the Shares immediately before the date of grant was HK$2.32 per Share.

All options granted pursuant to the Share Option Scheme till 30 June 2016 shall vest in the grantees in the following manner:

(1) One-third of the First Batch of Options Granted shall vest on 21 January 2017;

(2) One-third of the First Batch of Options Granted shall vest on 21 January 2018; and

(3) One-third of the First Batch of Options Granted shall vest on 21 January 2019.

AUDIT COMMITTEE

The Company has an audit committee which was established with written terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules. The primary duties of the audit committee are to provide the Board with an independent review of the effectiveness of the financial reporting process, internal control and risk management of the Group, to oversee the audit process and to perform other duties and responsibilities stated in the written terms of reference. The audit committee comprises three independent non-executive Directors, namely, Ms. Ho Mei-Yueh, Mr. Jason Wan and Mr. Lau Chun Fai Douglas (Chairman). The unaudited interim condensed consolidated financial statements of the Group for the 2016 Interim Period have been reviewed by the audit committee.

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

For the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
REVENUE	4	**1,251,011**	912,302
Cost of sales		**(740,059)**	(622,212)
Gross profit		**510,952**	290,090
Other income and gains	4	**24,985**	19,654
Selling and distribution expenses		**(287,807)**	(203,045)
Administrative expenses		**(83,655)**	(51,829)
Other expenses		**(13,008)**	(1,612)
Finance costs	5	**(8,769)**	(7,255)
Share of profits of associates		**2,124**	1,971
Profit before tax	6	**144,822**	47,974
Income tax expense	7	**(38,644)**	(10,985)
PROFIT FOR THE PERIOD		**106,178**	36,989
Attributable to:			
Owners of the parent		**101,546**	40,506
Non-controlling interests		**4,632**	(3,517)
		106,178	36,989
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
– basic and diluted (RMB)	9	**8.14 cents**	4.10 cents

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

For the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
PROFIT FOR THE PERIOD		**106,178**	36,989
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(2,356)**	(22,586)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(2,356)**	(22,586)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurement losses on the defined benefit plan		**(4,866)**	–
Income tax effect		**1,168**	–
Net other comprehensive loss not being reclassified to profit or loss in subsequent periods		**(3,698)**	–
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		**(6,054)**	(22,586)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**100,124**	14,403
Attributable to:			
Owners of the parent		**96,261**	12,333
Non-controlling interests		**3,863**	2,070
		100,124	14,403

Interim Condensed Consolidated Statement of Financial Position

30 June 2016

	Notes	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	655,088	586,296
Prepaid land lease payments		1,943	1,971
Goodwill		74,894	72,053
Other intangible assets		48,338	45,679
Investments in associates		35,738	32,312
Deferred tax assets		116,116	98,794
Total non-current assets		932,117	837,105
CURRENT ASSETS			
Inventories	11	834,359	579,857
Trade and bills receivables	12	159,644	185,396
Prepayments, deposits and other receivables		247,054	164,097
Tax recoverable		–	719
Pledged deposits	13	730,777	769,738
Time deposits	13	422,381	185,990
Cash and cash equivalents	13	175,287	307,620
Total current assets		2,569,502	2,193,417
CURRENT LIABILITIES			
Trade payables	14	239,299	172,692
Other payables and accruals		615,163	475,826
Derivative financial instruments		3,586	1,943
Interest-bearing bank loans and other borrowings		722,261	756,993
Tax payable		89,561	66,873
Total current liabilities		1,669,870	1,474,327
NET CURRENT ASSETS		899,632	719,090
TOTAL ASSETS LESS CURRENT LIABILITIES		1,831,749	1,556,195

Interim Condensed Consolidated Statement of Financial Position

30 June 2016

	Notes	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings		354,666	189,176
Defined benefit plan		18,504	12,885
Deferred tax liabilities		25,548	26,591
Total non-current liabilities		398,718	228,652
Net assets		1,433,031	1,327,543
EQUITY			
Equity attributable to owners of the parent			
Issued capital		108,455	108,455
Reserves		1,303,156	1,204,224
		1,411,611	1,312,679
Non-controlling interests		21,420	14,864
Total equity		1,433,031	1,327,543

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Attributable to owners of the parent									
	Issued capital RMB'000	Share premium account* RMB'000	Share option reserve* RMB'000	Capital reserve* RMB'000	Statutory surplus reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Six months ended 30 June 2016 (unaudited)										
At 1 January 2016	108,455	945,159	–	(302,835)	64,237	(65,244)	562,907	1,312,679	14,864	1,327,543
Profit for the period	–	–	–	–	–	–	101,546	101,546	4,632	106,178
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	–	–	–	–	–	(1,587)	–	(1,587)	(769)	(2,356)
Remeasurement loss on the defined benefit plan, net of tax	–	–	–	–	–	–	(3,698)	(3,698)	–	(3,698)
Total comprehensive income/(loss) for the period	–	–	–	–	–	(1,587)	97,848	96,261	3,863	100,124
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(4,153)	(4,153)
Acquisition of non-controlling interest	–	–	–	(3,763)	–	–	–	(3,763)	746	(3,017)
Equity-settled share option arrangements (note 18)	–	–	6,434	–	–	–	–	6,434	–	6,434
Transfer from retained profits	–	–	–	–	3,170	–	(3,170)	–	–	–
Contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	6,100	6,100
At 30 June 2016	108,455	945,159	6,434	(306,598)	67,407	(66,831)	657,585	1,411,611	21,420	1,433,031
Six months ended 30 June 2015 (unaudited)										
At 1 January 2015	86,866	456,267	–	16,974	52,161	(27,093)	522,585	1,107,760	107,168	1,214,928
Profit/(loss) for the period	–	–	–	–	–	–	40,506	40,506	(3,517)	36,989
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	–	–	–	–	–	(28,173)	–	(28,173)	5,587	(22,586)
Total comprehensive income/(loss) for the period	–	–	–	–	–	(28,173)	40,506	12,333	2,070	14,403
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	–	(2,864)	(2,864)
Contribution from the non-controlling shareholders	–	–	–	–	–	–	–	–	5,941	5,941
Transfer from retained profits	–	–	–	–	1,492	–	(1,492)	–	–	–
At 30 June 2015	86,866	456,267	–	16,974	53,653	(55,266)	561,599	1,120,093	112,315	1,232,408

* These reserve accounts comprise the consolidated reserves of RMB1,303,156,000 (30 June 2015: RMB1,033,227,000) in the interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**144,822**	47,974
Adjustments for:			
Finance costs	5	**8,769**	7,255
Share of profits of associates		**(2,124)**	(1,971)
Interest income	4	**(19,396)**	(14,531)
Depreciation and amortisation	6	**29,402**	22,948
Write-down of inventories to net realisable value	6	**8,283**	227
Impairment of trade receivables	6	**3,642**	–
Equity-settled share option arrangements	18	**6,434**	–
		179,832	61,902
Increase in inventories		**(246,150)**	(97,034)
Decrease in trade and bills receivables		**26,366**	7,422
Increase in prepayments, deposits and other receivables		**(78,019)**	(44,653)
Increase in trade payables		**60,276**	31,962
Increase in other payables and accruals		**135,523**	106,353
Cash generated from operations		**77,828**	65,952
Interest received		**15,697**	16,201
Interest paid		**(6,423)**	(6,832)
Mainland China corporate income tax paid		**(31,976)**	(30,980)
Overseas tax refunded/(paid)		**1,368**	(466)
Net cash flows from operating activities		**56,494**	43,875
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(71,829)**	(135,682)
Additions to other intangible assets		**(6,867)**	(1,694)
Proceeds from disposal of items of property, plant and equipment		**68**	–
Proceeds from disposal of other intangible assets		**134**	–
(Increase)/decrease in time deposits		**(236,391)**	365,100
Decrease/(increase) in pledged time deposits		**38,961**	(452,828)
Net cash flows used in investing activities		**(275,924)**	(225,104)

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings		133,306	361,692
Repayment of bank loans and other borrowings		(13,755)	(100,310)
Acquisition of non-controlling interests		(3,017)	–
Contributions from non-controlling shareholders		6,100	5,941
Dividend paid to non-controlling shareholders		(4,153)	(2,863)
Interest element of finance lease rental payments		(799)	(423)
Net cash flows from financing activities		117,682	264,037
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(101,748)	82,808
Cash and cash equivalents at beginning of period		307,620	278,277
Effect of foreign exchange rate changes, net		(30,585)	15,501
CASH AND CASH EQUIVALENTS AT END OF PERIOD		175,287	376,586
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	13	175,287	376,586

Notes to the Interim Condensed Consolidated Financial Statements

30 June 2016

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, Mainland China; (ii) Hong Kong, at Unit 16, 36/F., China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong; and (iii) the Netherlands, at Dokter van Deenweg 150, 8025 BM Zwolle, the Netherlands. The Shares were listed on the Main Board of 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 infant nutrition products in 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 AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

Basis of preparation

The Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2016 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules 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 2015. The Interim Condensed Consolidated Financial Statements are presented in 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 2015, except for the adoption of new standards and interpretations as of 1 January 2016 noted below.

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

Changes in accounting policies and disclosures (continued)

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 IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	*Amendments to a number of IFRSs*

The adoption of the New or Revised IFRSs 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 its products and services and has two reportable operating segments for the six months ended 30 June 2016 as follows:

(a) the Ausnutria segment comprises the manufacture and sale of own-branded cow milk-based infant 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 the sale of its own-branded cow and goat milk-based infant formula products in Mainland China and other overseas countries.

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

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

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

3. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2016 (unaudited)

	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Total RMB'000
SEGMENT REVENUE			
Sales to external customers	434,126	816,885	1,251,011
Intersegment sales	–	112,464	112,464
	434,126	929,349	1,363,475
Reconciliation:			
Elimination of intersegment sales			(112,464)
Revenue from operations			1,251,011
SEGMENT RESULTS	67,216	87,851	155,067
Reconciliation:			
Elimination of intersegment results			(4,927)
Interest income			19,396
Finance costs			(8,769)
Corporate and other unallocated expenses			(15,945)
Profit before tax			144,822
OTHER SEGMENT INFORMATION			
Impairment losses recognised in profit or loss	–	11,925	11,925
Share of profits of associates	–	2,124	2,124
Depreciation and amortisation	5,077	24,325	29,402
Capital expenditure*	5,867	72,829	78,696

As at 30 June 2016 (unaudited)

	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Total RMB'000
SEGMENT ASSETS	560,300	1,836,656	2,396,956
Reconciliation:			
Elimination of intersegment receivables			(223,782)
Corporate and other unallocated assets			1,328,445
Total assets			3,501,619
SEGMENT LIABILITIES	225,395	990,048	1,215,443
Reconciliation:			
Elimination of intersegment payables			(223,782)
Corporate and other unallocated liabilities			1,076,927
Total liabilities			2,068,588

3. OPERATING SEGMENT INFORMATION (continued)

Six months ended 30 June 2015 (unaudited)

	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Total RMB'000
SEGMENT REVENUE			
Sales to external customers	291,523	620,779	912,302
Intersegment sales	–	17,530	17,530
	291,523	638,309	929,832
Reconciliation:			
Elimination of intersegment sales			(17,530)
Revenue from operations			912,302
SEGMENT RESULTS	41,822	4,825	46,647
Reconciliation:			
Interest income			14,531
Finance costs			(7,255)
Corporate and other unallocated expenses			(5,949)
Profit before tax			47,974
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*	1,957	135,419	137,376

As at 31 December 2015 (audited)

	Ausnutria RMB'000	Ausnutria Hyproca RMB'000	Total RMB'000
SEGMENT ASSETS	544,555	1,408,551	1,953,106
Reconciliation:			
Elimination of intersegment receivables			(185,932)
Corporate and other unallocated assets			1,263,348
Total assets			3,030,522
SEGMENT LIABILITIES	290,991	651,751	942,742
Reconciliation:			
Elimination of intersegment payables			(185,932)
Corporate and other unallocated liabilities			946,169
Total liabilities			1,702,979

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

3. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	Six months ended 30 June 2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
The PRC	**807,117**	547,732
European Union	**271,842**	265,328
Middle East	**54,726**	27,820
United States	**50,671**	16,069
Australia and New Zealand	**3,171**	6,043
Others	**63,484**	49,310
	1,251,011	912,302

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

(b) Non-current assets

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Hong Kong	**453**	–
The PRC	**81,245**	80,714
The Netherlands	**734,303**	657,597
	816,001	738,311

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 2016, 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 2015: 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	
	Note	**2016 RMB'000 (Unaudited)**	2015 RMB'000 (Unaudited)
REVENUE			
Sale of goods		**1,251,011**	912,302
OTHER INCOME AND GAINS			
Interest income		**19,396**	14,531
Government grants	(i)	**964**	2,513
Management fee income from an associate		**1,173**	110
Others		**3,452**	2,500
Total		**24,985**	19,654

(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	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Interest on bank loans, overdrafts and other loans	**8,790**	9,263
Interest on finance leases	**799**	423
Total interest expense on financial liabilities not at fair value through profit or loss	**9,589**	9,686
Less: Interest capitalised	**(2,367)**	(2,431)
	7,222	7,255
Unrealised loss on an interest rate swap	**1,547**	–
Total	**8,769**	7,255

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**731,776**	621,985
Write-down of inventories to net realisable value	**8,283**	227
Cost of sales	**740,059**	622,212
Depreciation	**23,824**	19,488
Amortisation of lease payments for land use rights	**28**	28
Amortisation of other intangible assets	**5,550**	3,432
Minimum lease payments under operating leases for buildings	**5,253**	1,659
Impairment of trade receivables	**3,642**	–
Auditors' remuneration	**2,779**	2,000
Foreign exchange losses	**3,437**	290
Employee benefit expenses (including directors' remuneration):		
Wages, salaries and staff welfare	**171,574**	134,634
Pension scheme contributions*	**19,618**	10,938
Equity-settled share option expense	**6,434**	–
	197,626	145,572

* As at 30 June 2016, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (31 December 2015: 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 2016 (six months ended 30 June 2015: 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 the CIT at a rate of 25%. Under the Netherlands income tax laws, enterprises are subject to the Netherlands CIT 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 China was designated as a High-tech Enterprise and was granted a preferential CIT rate of 15% for the three years ended 31 December 2015. Ausnutria China is now in the process of renewing its High-tech Enterprise credential.

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current charge/(credit) for the period		
The Netherlands	**1,570**	(3,925)
Mainland China	**52,605**	16,024
Deferred income tax	**(15,531)**	(1,114)
Total	**38,644**	10,985

8. INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: 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 1,247,732,530 (six months ended 30 June 2015: 986,843,000) in issue during the period.

Earnings

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**101,546**	40,506

Shares

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	**1,247,732,530**	986,843,000

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2016 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

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

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired property, plant and equipment with an aggregate cost of RMB71,829,000 (six months ended 30 June 2015: approximately RMB135,682,000), of which RMB45,700,000 (six months ended 30 June 2015: approximately RMB116,309,000) was related to the construction of the New Factory.

The New Factory is expected to be completed in the first quarter of 2017 and the carrying amount at 30 June 2016 was EUR41,852,000 (equivalent to approximately RMB308,658,000) (31 December 2015: EUR35,685,000 (equivalent to approximately RMB253,192,000)). The amount of borrowing costs capitalised during the six months ended 30 June 2016 was RMB2,367,000 (six months ended 30 June 2015: RMB2,431,000). The weighted average rate used to determine the amount of the borrowing costs eligible for capitalisation was 2.43%, which is the effective interest rate of the specific borrowings.

As at 30 June 2016, certain of the Group's land and buildings, and plant and equipment that were attributed to the Ausnutria Hyproca Group and located in the Netherlands with net carrying amounts of EUR20,223,000, equivalent to approximately RMB149,115,000 (31 December 2015: EUR14,507,000, equivalent to approximately RMB102,932,000) and EUR60,842,000, equivalent to approximately RMB448,712,000 (31 December 2015: EUR23,971,000, equivalent to approximately RMB170,079,000), respectively, were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group.

As at 30 June 2016, the Group's land included in property, plant and equipment with a net carrying amount of EUR7,354,000 (equivalent to approximately RMB54,236,000) (31 December 2015: EUR7,354,000 (equivalent to approximately RMB52,176,000) is situated in the Netherlands and is held as freehold land.

11. INVENTORIES

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Raw materials	**169,541**	213,031
Finished goods	**659,418**	361,850
Others	**5,400**	4,976
Total	**834,359**	579,857

As at 30 June 2016, certain of the Group's inventories that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR66,812,000, equivalent to approximately RMB492,739,000 (31 December 2015: EUR55,063,000, equivalent to approximately RMB390,683,000) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group.

12. TRADE AND BILLS RECEIVABLES

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Trade receivables	124,275	145,552
Bills receivable	35,369	39,844
Total	159,644	185,396

The Group normally allows a credit period from one month to 12 months (31 December 2015: 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 are amounts due from associates of EUR768,000, equivalent to approximately RMB5,664,000 (31 December 2015: EUR271,000, equivalent to approximately RMB1,923,000), which 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 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within 3 months	115,781	133,170
3 to 6 months	5,903	6,807
6 months to 1 year	129	3,112
Over 1 year	2,462	2,463
Total	124,275	145,552

The provision for impairment of trade receivables as at 30 June 2016 was RMB3,642,000 (31 December 2015: Nil).

As at 30 June 2016, certain of the Group's trade receivables (including intra-group trade receivables due to the Ausnutria Hyproca Group) that were attributed to the Ausnutria Hyproca Group with a net carrying amount of EUR30,648,000, equivalent to approximately RMB226,029,000 (31 December 2015: EUR17,896,000, equivalent to approximately RMB126,976,000) were pledged to secure general banking facilities granted to the Ausnutria Hyproca Group.

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Cash and bank balances	175,287	307,620
Time deposits	1,153,158	955,728
	1,328,445	1,263,348
Less: Pledged deposits	(730,777)	(769,738)
Non-pledged time deposits with maturity of between 3 months to 12 months	(422,381)	(185,990)
Cash and cash equivalents	175,287	307,620

As at 30 June 2016, the Group's cash and bank balances denominated in RMB amounted to RMB117,165,000 (31 December 2015: RMB186,210,000). In addition, all the Group's time deposits were denominated in RMB. 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 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within 12 months	237,834	170,769
Over 12 months	1,465	1,923
Total	239,299	172,692

Included in the Group's trade payables are amounts due to associates of EUR1,717,000, equivalent to approximately RMB12,663,000 (31 December 2015: EUR438,000, equivalent to approximately RMB3,280,000), which are repayable within 45 days.

Trade payables are interest-free and are normally settled within 12 months (31 December 2015: within 12 months).

15. SHARE CAPITAL

	30 June 2016 (Unaudited)		31 December 2015 (Audited)	
	HK$'000	RMB'000 equivalent	HK$'000	RMB'000 equivalent
Issued and fully paid:				
1,247,732,530 (31 December 2015: 1,247,732,530) ordinary shares of HK$0.10 each	124,773	108,455	124,773	108,455

During the period, there was no movement in share capital (six months ended 30 June 2015: Nil).

16. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities (31 December 2015: Nil).

17. PLEDGE OF ASSETS

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

18. SHARE-BASED PAYMENTS

On 21 January 2016, 34,800,000 share options were granted to the Directors and employees under the Share Option Scheme. The exercise price of the options of HK$2.45 was not less than the highest of (i) the closing price of HK$2.32 per Share as stated in the daily quotation sheet issued by the Stock Exchange on 21 January 2016, being the date of grant of the options; (ii) the average closing price of HK$2.42 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five trading days immediately preceding the date of grant of the options; and (iii) the nominal value of HK$0.10 per Share. The fair value at grant date is estimated using a binomial tree model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is five years. The fair value of options granted during the six months ended 30 June 2016 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	0.00
Expected volatility (%)	49.09
Risk-free interest rate (%)	1.45

The following options were outstanding under the Share Option Scheme during the period:

	2016	
	Weighted average exercise price HK$ per Share	Number of Options '000
At 21 January	2.45	34,800
Expired during the year	2.45	(200)
At 30 June	2.45	34,600

The weighted average fair value of the options granted during the six month ended 30 June 2016 was HK$0.65 (six months ended 30 June 2015: N/A).

For the six months ended 30 June 2016, the Group has recognised HK$7,671,000 (equivalent to RMB6,434,000) of share-based payment expense in the statement of profit or loss (six months ended 30 June 2015: N/A).

19. OPERATING LEASE ARRANGEMENTS

As lessee

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

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Within one year	5,752	4,981
In the second to fifth years, inclusive	11,013	11,289
Total	16,765	16,270

20. COMMITMENTS

In addition to the operating lease commitment detailed in note 19 above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
Contracted, but not provided for:		
Plant and machineries	179,676	172,859

21. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the Interim Condensed Consolidated Financial Statements, the Group had the following material transactions with related parties during the period:

		Six months ended 30 June	
	Notes	**2016 RMB'000 (Unaudited)**	2015 RMB'000 (Unaudited)
Purchases of products from the associates	(i)	**85,672**	95,384
Sales of products to the associates	(i)	**10,404**	5,294
Management fees received from the associates	(ii)	**1,173**	110
Management fees paid to BioEngine Technology Development Inc. ("**BioEngine Tech**")	(iii)	**1,920**	–
Interest expense to DDI	(b)(i)	**243**	486

Notes:

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

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

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

(b) Outstanding balances with related parties:

(i) The loans due to DDI, the 49% non-controlling shareholder of Ausnutria Hyproca as at the date of entering into the respective loan agreements, of a total of EUR8,820,000 (equivalent to approximately RMB65,048,000) as at 1 January 2015, which were unsecured and bore interest at 2% per annum, was fully repaid in April 2016.

The aforementioned 49% equity interests in Ausnutria Hyproca was acquired by the Group in September 2015 and DDI ceased to be a shareholder of Ausnutria Hyproca thereafter.

(ii) Details of the trade balances with the associates as at the end of the reporting period are disclosed in notes 12 and 14 to the Interim Condensed Consolidated Financial Statements.

21. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries, allowances and benefits in kind	7,693	6,972
Retirement benefit contributions	325	426
Equity-settled share-based payment expense	1,674	–
Total	9,692	7,398

22. FINANCIAL INSTRUMENTS BY CATEGORY

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

30 June 2016

Financial assets

	Loans and receivables RMB'000 (Unaudited)
Trade and bills receivables	159,644
Financial assets included in prepayments, deposits and other receivables	20,521
Pledged deposits	730,777
Time deposits	422,381
Cash and cash equivalents	175,287
Total	1,508,610

22. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss RMB'000 (Unaudited)	Financial liabilities at amortised cost RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Trade payables	–	239,299	239,299
Financial liabilities included in other payables and accruals	–	87,636	87,636
Derivative financial instruments	3,586	–	3,586
Interest-bearing bank loans and other borrowings	–	1,073,858	1,073,858
Total	3,586	1,400,793	1,404,379

31 December 2015

Financial assets

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

22. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities

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

23. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

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

	Carrying amounts		Fair values	
	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)	**30 June 2016 RMB'000 (Unaudited)**	31 December 2015 RMB'000 (Audited)
Financial liabilities				
Derivative financial instruments	**3,586**	1,943	**3,586**	1,943
Interest-bearing bank loans and other borrowings	**1,076,927**	946,169	**1,073,858**	935,602
	1,080,513	948,112	**1,077,444**	937,545

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

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

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

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

The fair values of interest-bearing bank loans and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans and other borrowings as at 30 June 2016 was assessed to be insignificant.

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

As at 30 June 2016, the mark to market value of the derivative asset position was net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

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

Fair value hierarchy

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

Liabilities measured at fair value:

As at 30 June 2016 (unaudited)

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Derivative financial instruments	**–**	**3,586**	**–**	**3,586**

As at 31 December 2015 (audited)

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

During the reporting period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial liabilities (six months ended 30 June 2015: Nil).

24. EVENTS AFTER THE REPORTING PERIOD

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

(a) On 6 July 2016, the Company announced options (the "**Options**") to subscribe for a total of 12,015,000 Shares were granted to certain eligible participants pursuant to the Share Option Scheme. None of the grantees is a Director, chief executive or substantial Shareholder, nor an associate (as defined in the Listing Rules) of any of them. Exercise price of the Options granted is HK$2.45 per Share.

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

Further details regarding the Options are set out in the announcement of the Company dated 6 July 2016.

(b) On 11 July 2016, Ausnutria China and Hunan XinDaXin entered into a share transfer agreement pursuant to which Ausnutria China agreed to acquire and Hunan XinDaXin agreed to sell the entire equity interest in Hunan Mornring Foodstuff Co., Ltd., the principal activity of which is the holding of the Properties that is adjacent to the Group's existing production facility in Changsha city, the PRC, at a consideration of RMB28.5 million.

The purpose of the Mornring Acquisition is to facilitate the future expansion of the Group's storage and production facilities in Changsha city, the PRC. The consideration was determined after arm's length negotiation between Ausnutria China and Hunan XinDaXin based on the appraised value of the Properties reported under a valuation report as produced by an independent qualified appraisal company in Hong Kong.

Further details regarding the Mornring Acquisition are set out in the announcement of the Company dated 11 July 2016. The Mornring Acquisition was completed in July 2016.

25. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Interim Condensed Consolidated Financial Statements were approved and authorised for issue by the Board on 12 August 2016.